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East Palo Alto Fiscal Analysis

Prepared for the
Association of Bay Area Governments
In Cooperation with the
East Palo Alto Municipal Council

Angus McDonald & Associates, Inc.
In Association with
John Warren & Associates

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I. INTRODUCTION AND SUMMARY

A. Background

East Palo Alto is a multi-racial suburban community located in the southeastern corner of San Mateo County. Control of local government services has long been an issue. During the 1960s, public services were fragmented among numerous special districts and the County of San Mateo. Citizens felt extremely alienated from the political process intended to serve them. Annexations by surrounding cities reduced East Palo Alto's territory, thus reducing opportunities for growth, economic development, and expansion of the tax base.

In 1967, the county authorized the formation of a municipal advisory council in East Palo Alto, an elected body intended to advise the Board of Supervisors on matters concerning East Palo Alto and give the local citizens a sense of political involvement. The East Palo Alto Municipal Council has functioned well and has been successful in working with the Board of Supervisors and other governmental agencies serving the area.

An early goal of the Municipal Council was the formation of a City of East Palo Alto. Several incorporation studies have been conducted over the past twelve years. None of them has resulted in an actual incorporation attempt, primarily because of the generally negative findings.

The present study is a further attempt at revealing the feasibility of incorporation. Many of the old issues remain. East Palo Alto has a low property tax base and high service costs. This problem was recently aggravated by the passage of Proposition 13, which effectively reduced property tax revenue by two-thirds and restricted the creation of new special taxes. Limited commercial and industrial development in East Palo Alto not only limits property taxes but also other revenue sources, such as the sales tax.

The feasibility of incorporation is dependent upon many factors, one of which is the fiscal soundness of the new city. This report provides a fiscal analysis of the current public service providers. All of the issues related to this incorporation are not addressed. Further studies should provide resolution of the boundary issues, an accurate estimate of alternative municipal budgets, and an environmental impact report.

The actual incorporation process will involve negotiations with the existing service providers, the County of San Mateo, and the

Local Agency Formation Commission (LAFCO), and will require an election. The fiscal analysis is intended to provide information for use in this incorporation process. Two related studies currently being conducted for East Palo Alto will also provide valuable information. The county is preparing an area specific plan for East Palo Alto. This study could form the basis of a city general plan. More directly related to the issue of incorporation is the LAFCO sphere of influence study (R-16).^{*} The sphere of influence study will be the document that synthesizes the major issues related to the incorporation of East Palo Alto.

B. Summary of the Base Case Analysis

East Palo Alto receives municipal services primarily from eight special districts and various departments of the San Mateo County government. The level of service provided by these agencies is generally equivalent to other urban areas in San Mateo County. In some cases, the level of service is higher because of specific problems in East Palo Alto, such as high crime rate, relatively high rate of fires and medical emergencies, and high dog population. Many roads and drainage systems are difficult to maintain and are presently in substandard condition.

The East Palo Alto Municipal Council serves as an interface between the residents and the public service providers. Over the years, the council has been successful in negotiating with the districts and the county regarding public services. Because of the commitment of the special districts and San Mateo County and the work of the Municipal Council, East Palo Alto enjoys good municipal services which continue to improve.

The capital improvement programs of the main service providers are directed at upgrading municipal facilities, including roads, water supply, drainage, and sanitary sewers. A conclusion of the analysis of the municipal facilities was that a number of problems exist with present facilities. The projects presently under construction during the next five years should eliminate most of the problems.

Two major problems are not addressed in current capital improvement programs. First, a number of road projects are required, in addition to the already ambitious construction program. These projects include both reconstruction of existing roads and construction of entirely new roads in order to utilize land more efficiently. Second, the water distribution system in some areas is deteriorating because of corrosion. The system must be protected from this problem, or major new costs for replacing the corroded pipes will be required.

* Underscored numbers in parentheses refer to references listed at the end of this report.

Agencies responsible for municipal services in East Palo Alto expended an estimated \$3,793,800 during 1978-79 for services in East Palo Alto. Total revenue generated in East Palo Alto during the same period is estimated at \$2,908,100, not all of which was allocated to these municipal services. This indicates a present revenue shortfall. Some of the shortfall was offset by the state bailout funds in 1978-79, and some was offset by federal grants, both general revenue sharing and Housing and Community Development Act block grants. The balance of costs not covered by local revenue represents a subsidy to East Palo Alto by other areas of San Mateo County.

The 1978-79 fiscal year, which has been used for the base year in this analysis, was unusual because of Proposition 13 and its temporary implementation legislation. Property tax revenue, a major revenue source was drastically reduced by Proposition 13. The average effective tax rate on each \$100 of assessed value dropped from \$10 to \$4. In 1978-79, this loss of revenue was partially replaced by state bailout funds provided by SB 154.

The clearest case of a revenue subsidy was for police services, where the combined expenditures of the San Mateo County Sheriff's Department and the California Highway Patrol in East Palo Alto exceeded the local contribution for these services by nearly four times. Table I-1 summarizes the costs and revenue sources for current municipal services.

San Mateo County's housing and community development program received \$3,674,000 of HCDA block grant funds in 1978-79. HCDA grants are based on county statistics related to per capita income, unemployment, and substandard housing. East Palo Alto accounts for \$411,000 or 11% of the total county entitlement. In 1978-79 HCDA funds appropriated in East Palo Alto were \$600,000, or 20% of the countywide entitlement.

The projection of revenue available to East Palo Alto in the future indicates a fairly constant amount of revenue over the five year period 1980-81 through 1984-85. A number of variables will substantially affect these revenues, however.

- The amount of property taxes available will depend upon which municipal services are assumed by the city government. For this analysis, two projections were prepared, one for the minimum legally mandated services assumed by a new city, and another for a "full service" city.
- A number of potential revenue sources would require approval of two-thirds of the voters. These revenue sources comprise approximately 16% of potential revenue.

Table I-1
SUMMARY OF EXISTING COSTS AND REVENUES
EAST PALO ALTO

| Municipal Service | Separable Maintenance & Operation Costs 1978-79 | Revenues (1978 - 1979) | | | | |
|----------------------------------|---|-------------------------------------|----------------------|-----------------------------------|--|----------|
| | | County or District Gen. Funds | Fees, Assessments | Federal Grants, Subventions | State Grants, ¹ Subventions | Other: |
| Police | \$1,472,076 | \$ 985,406 | -0- | \$119,371 | \$367,299 | -0- |
| Fire Protection | 462,300 | 272,957 | -0- | -0- | 189,543 | -0- |
| Roads | 88,100 | -0- | -0- | -0- | 88,100 | -0- |
| Drainage | 22,640 | 21,704 | -0- | -0- | 336 | \$ 600 |
| Lighting | 61,409 | 29,014 | -0- | -0- | 32,395 | -0- |
| Water Service | 642,305 | 30,805 | \$604,500 | -0- | -0- | 7,000 |
| Sanitary Services | 280,801 | 105,102 | 158,728 | -0- | 6,971 | 10,000 |
| Local Parks and Recreation | 169,678 | 60,943 | 4,360 | 2,207 | 102,168 | -0- |
| Library | 158,276 | 132,691 | 429 | -0- | 25,156 | -0- |
| Planning & Building Inspection | 36,150 | 20,204 | 14,463 | 1,065 | 200 | 220 |
| Animal Control | 8,441 | 4,043 | 4,398 | -0- | -0- | -0- |
| East Palo Alto Municipal Council | 231,200 | 123,067 | -0- | 108,133 | -0- | -0- |
| Refuse Disposal | 160,466 | -0- | 160,466 | -0- | -0- | -0- |
| TOTAL | \$3,793,842 | \$1,785,736 | \$947,344 | \$230,774 | \$812,168 | \$17,820 |

1. Includes the state SB 154 "bail out" funds intended to offset the impact of Proposition 13.

- State shared revenues are dependent upon population. Revenues available to East Palo Alto would be based on three times the number of registered voters. This approximation would underestimate East Palo Alto's population by 20%. A special census will be required to eliminate this problem.
- The amount of federal funds available to the new city is not entirely clear for the entire projection period. General revenue sharing funds were projected and are considered a reasonable estimate. The present Housing and Community Development Act (HCDA) block grant entitlement, currently administered by San Mateo County, ends in 1982. Beyond that point, funds are not projected. The current HCDA legislation in Congress may allow East Palo Alto to become its own entitlement agency. If this occurs, substantial new revenues may be available. These funds, which were \$600,000 in 1978-79, could be used, as they now are, for community development projects, although some could also be used for municipal services.

C. Comparison of the Municipal Alternatives.

The comparison of the municipal alternatives summarizes the key findings of the East Palo Alto fiscal analysis. The fiscal analysis was basically divided into two parts. The first is a thorough review of the existing services provided to East Palo Alto and a projection of costs, including analysis of the current capital improvement programs. The second is the formulation of two incorporation alternatives based on different assumptions concerning services provided. The first alternative designated Alternative A represents a minimum service city where only the legally required services would be provided and where most of the special districts would remain in existence. The second alternative, designated Alternative B represents a more full-service city where most of the major special districts would be absorbed by the new city of East Palo Alto. Detailed cost and revenue projections were prepared for both alternatives.

The first comparison of the municipal alternatives, including the base case, contrasts the projected costs of municipal services. This comparison is shown in Table I-2. Two key municipal services are not included: fire protection, and library service. These services are assumed to continue being provided by the existing agencies, and hence do not directly bear on this analysis.

The conclusion that may be reached from reviewing this data is that no substantial cost savings can be achieved through incorporation. In fact, Alternative A might be somewhat more costly than the present situation.

TABLE I-2

COMPARISION OF MUNICIPAL ALTERNATIVE COSTS

| MUNICIPAL SERVICE | ESTIMATED ANNUAL OPERATING COSTS 1980-85 (1979 Dollars) | | |
|-----------------------|--|--------------------------|-------------|
| | City "A" | City "B" | Base Case 3 |
| GENERAL GOVERNMENT | \$ 328,000 ¹ | \$ 333,000 ¹ | \$ 213,000 |
| COMMUNITY DEVELOPMENT | 364,600 ¹ (Including street maintenance costs) | 162,000 ¹ | 38,000 |
| POLICE PROTECTION | \$1,222,300 ¹ | \$1,222,300 ¹ | \$1,500,000 |
| PUBLIC WORKS | 1,010,800 ² | 1,120,000 ¹ | 1,110,800 |
| PARKS AND RECREATION | 180,000 ² | 189,500 ¹ | 180,000 |
| ANIMAL CONTROL | 9,400 ¹ | 9,400 ¹ | 9,400 |
| CIVIL DEFENSE | 3,500 ¹ | 3,500 ¹ | 3,500 |
| GARBAGE COLLECTION | 220,000 ¹ | 220,000 ¹ | 220,000 |
| TOTAL | \$3,338,600 | \$3,259,700 | \$3,274,700 |

1. These services would be provided by East Palo Alto.
2. These services would continue being delivered by the existing service providers.
3. The Base Case is the existing situation projected into the future.

The availability of revenue to East Palo Alto is overshadowed by the fiscal limitations imposed by Proposition 13. The key impact of the property tax revenue limitation is that a new city must finance its new operation with revenues taken from other agencies. No new tax rate is permitted, and the agencies no longer providing services must estimate the share of revenue the new city receives from their funds. In addition to the limitation on property taxes, special taxes such as franchise fees, and business license taxes, which are major potential revenue sources, must pass an election supported by two-thirds of the qualified electorate. Detailed projections of available revenue were prepared for the municipal alternatives.

The key conclusion of the revenue projections was that East Palo Alto under either of the municipal alternatives can expect an increasing revenue base over the five years projected, 1980 through 1985. The projection for Alternative B included the increased revenues divided from user fees, property taxes, and interest. Key variables affecting the tax base are: the growth (in assessed value) of local property; sales taxes, which are presently extremely low per capita; and the availability of federal grants.

Presently, and for the base case alternative, East Palo Alto enjoys a revenue subsidy from the remainder of San Mateo County. The largest example of this subsidy is police services, where at least 50% of the current budget of over \$1,200,000 is supported by the San Mateo County general fund. This subsidy also exists in public works where a large portion, nearly 50% of the county's road capital improvement program, funded primarily by gasoline taxes is related to East Palo Alto projects. If East Palo Alto incorporated, it would negotiate with current providers on how these revenues would be divided and what services would continue. A key assumption made during the analysis was that the county public works department would remain responsible for the completion of the current capital improvement program. In any event, the ultimate impact of incorporation would be a shift of municipal service costs, either in terms of higher taxes and fees or reduced services, from the balance of San Mateo County to the property owners and residents of East Palo Alto.

The key to the feasibility of a new city is the comparison of costs and projected revenues. This comparison is developed in detail in Chapter V of this report and is summarized in Table I-3. Review of this data indicates a substantial revenue short-fall for East Palo Alto under either alternative. The short-fall is shown to improve over the five year projection period because costs are assumed (in constant dollars,) not to increase, while most revenues should increase in real dollar terms. The projected deficits for the incorporation alternatives are conservative, that is, they include new special tax revenues which would require voter approval. Without these new taxes the deficits would generally double.

Table I-3

COMPARISON OF COSTS AND REVENUES
FOR THE MUNICIPAL ALTERNATIVES
ALTERNATIVE A - Minimum Service City

| Costs and Revenue Categories | Cost-Revenue Projection (Thousands of 1979 Dollars) | | | | |
|--|--|---------|---------|---------|---------|
| | 1980-81 | 1981-82 | 1982-83 | 1983-84 | 1984-85 |
| <u>GENERAL REVENUE</u> | | | | | |
| LOCAL | \$1,141.7 | 1,220.8 | 1,295.5 | 1,441.1 | 1,547.0 |
| STATE SHARED | 283.7 | 287.6 | 289.3 | 291.3 | 293.4 |
| FEDERAL REVENUE SHARING | 233.0 | 247.0 | 261.0 | 288.0 | 308.0 |
| TOTAL | \$1,658.4 | 1,755.4 | 1,845.8 | 2,020.4 | 2,148.4 |
| <u>DEDICATED REVENUE</u> | | | | | |
| STATE SHARED | \$ 158.5 | 130.9 | 98.4 | 67.2 | 41.7 |
| LOCAL | \$ 41.1 | 41.1 | 41.1 | 41.1 | 41.1 |
| TOTAL | \$ 199.6 | 172.0 | 139.5 | 108.3 | 82.8 |
| <u>EXPENSES (OPERATING ONLY)</u> | | | | | |
| GENERAL | \$1,897.8 | 1,897.8 | 1,897.8 | 1,897.8 | 1,897.8 |
| ELIGIBLE FOR DEDICATED REVENUE ¹ | 250.0 | 250.0 | 250.0 | 250.0 | 250.0 |
| TOTAL | \$2,147.8 | 2,147.8 | 2,147.8 | 2,147.8 | 2,147.8 |
| <u>SURPLUS (DEFICIT)²</u> | | | | | |
| GENERAL | \$ (239.4) | (142.4) | (52.0) | 122.6 | 250.6 |
| DEDICATED | (50.4) | (78.0) | (110.5) | (141.7) | (167.2) |
| TOTAL | \$ (289.8) | (220.4) | (162.5) | (19.1) | 83.4 |

1. This includes both direct costs and applied administrative costs, etc.

2. Assumes that voter approval is received for new special taxes which will equal \$311,600 during the first year of municipal operation. Without this revenue the initial fiscal feasibility of the alternative "A" City is substantially worsened.

Table L-3, continued

ALTERNATIVE B - Expanded Service City

| Costs and Revenue Categories | Cost-Revenue Projection (Thousands of 1979 Dollars) | | | | |
|--|--|---------|---------|---------|---------|
| | 1980-81 | 1981-82 | 1982-83 | 1983-84 | 1984-85 |
| <u>GENERAL REVENUE</u> | | | | | |
| LOCAL | \$2,206.3 | 2,280.7 | 2,358.5 | 2,505.1 | 2,614.1 |
| STATE SHARED | 283.7 | 287.6 | 289.3 | 291.3 | 293.4 |
| FEDERAL REVENUE SHARING | 233.0 | 247.0 | 261.0 | 288.0 | 308.0 |
| TOTAL | \$2,723.0 | 2,815.3 | 2,908.8 | 3,084.4 | 3,215.5 |
| <u>DEDICATED REVENUE</u> | | | | | |
| STATED SHARED | \$ 158.5 | 130.9 | 98.4 | 67.2 | 41.7 |
| LOCAL | 41.1 | 41.1 | 41.1 | 41.1 | 41.1 |
| TOTAL | \$ 199.6 | 172.0 | 139.5 | 108.3 | 82.8 |
| <u>EXPENSES</u> | | | | | |
| GENERAL | \$2,969.7 | 2,969.7 | 2,969.7 | 2,969.7 | 2,969.7 |
| ELIGIBLE FOR DEDICATED REVENUE ¹ | 290.0 | 290.0 | 290.0 | 290.0 | 290.0 |
| TOTAL | \$3,259.7 | 3,259.7 | 3,259.7 | 3,259.7 | 3,259.7 |
| <u>SURPLUS</u> (DEFICIT) ² | | | | | |
| GENERAL | \$(246.7) | (154.4) | (60.9) | 114.7 | 245.8 |
| DEDICATED | (90.4) | (118.0) | (150.5) | (181.7) | (207.2) |
| TOTAL | \$(337.1) | (272.4) | (211.4) | (67.0) | 38.6 |

1. This includes both direct costs and applied administrative costs, etc.

2. Assumes that voter approval is received for new special taxes which will equal \$311,600 during the first year of municipal operation. Without this revenue, the initial fiscal feasibility of the Alternative B city is substantially worsened.

The fiscal analysis of East Palo Alto indicates that incorporation at the present time, given the assumptions we have made concerning municipal service costs and revenues, is infeasible. The analysis does provide a basis for further study and also makes explicit the key obstacles facing East Palo Alto.

Different conclusions about the costs of municipal services can be debated endlessly. We feel that the cost estimates provided, while not beyond reproach, are generally representative of the effort required to maintain existing service standards and to make necessary, generally minor improvements. However, lower levels of service or costs below our estimates would result in an improved fiscal balance. On the revenue side, we feel our estimates to be representative of a best case assumption concerning East Palo Alto. Achieving these revenues would require a concerted effort on the part of the community to improve property value and, most importantly, recover sales tax revenues which currently finance public services in Menlo Park, Palo Alto, other nearby areas. One revenue variable that is not entirely clear is federal grants, including revenue sharing and Housing and Community Development Act funds. Uncertainty about these federal grants exists both at the federal level, where funds may be increased or decreased, and at the local level, where decisions in East Palo Alto and the County of San Mateo will affect the amount of funding available to the community. However, the possible increases in federal funding would not substantially alter the fiscal infeasibility of a City of East Palo Alto at this time, because of the size of the initial revenue shortfall. Also, in the long term, it does not make good fiscal policy for a local agency to be excessively dependent on federal grant programs, because these funds are not reliable.

II. EXISTING PUBLIC SERVICES IN EAST PALO ALTO

For purposes of this initial analysis, the boundaries of East Palo Alto are defined as being coterminous with County Service Area No. 5, which comprises the unincorporated portion of San Mateo County between the City of Menlo Park and the Santa Clara County line. Figure II-1 shows the existing boundaries of County Service Area No. 5.

A. Agencies Providing Public Services to East Palo Alto

Public services are presently provided to East Palo Alto by a combination of San Mateo County departments and service areas, independent special districts, private organizations, and state and federal agencies. Table II-2 identifies these services and the agencies providing them.

Table II-3 identifies services which are generally administered on a countywide basis and those which are typically provided by cities. If East Palo Alto incorporates, it must assume responsibility for certain of the latter, as shown in Table II-3. These municipally provided services include some which East Palo Alto currently receives from the county and from special districts and some which would be entirely new. Among the services which would cease to be provided by the county after incorporation are primary police protection, planning and land use controls, and road maintenance. In the past, these activities have been supported by the county's general fund and by special area taxes which are used to finance capital improvements or increased levels of service. After incorporation, some of these services could continue to be supplied by the county under contract with the new city, using funds derived from municipal sources.

Incorporation also involves a shift in responsibility for the traffic control services provided by the California Highway Patrol (CHP). When a city incorporates, the CHP continues to patrol freeway routes but ceases to patrol roads or investigate accidents within the new city.

A new city may also assume responsibility for services provided by special districts. In East Palo Alto, special districts provide fire protection, water and sewer services, and local parks and recreation. Typically, such services are financed by a combination of user charges and property taxes, although Proposition 13 has severely limited the latter.

Table II-2

EXISTING GOVERNMENT SERVICE PROVIDERS IN EAST PALO ALTO

| Government Service | Type of Agency | | | | | Name of Service Provider |
|---|-------------------|-----------------|----------------------|----------------------|-------------------------|---|
| | County Department | County District | Independent District | Private Organization | State or Federal Agency | |
| 1. <u>Schools</u> | | | | | | |
| a. Public | | | | | | |
| - Primary | | | • | | | - Ravenswood City School District |
| - Secondary | | | • | | | - Sequoia Union High School District |
| - College | • | | | | | - San Mateo County Community College District |
| b. Private | | | | • | | - Nairobi Schools (including primary and secondary schools and a college) |
| 2. <u>Police Protection</u> | • | | | | | - San Mateo County Sheriff's Department |
| | | | | • | | - California Highway Patrol |
| 3. <u>Fire Protection</u> | | | • | | | - Menlo Park Fire Protection District |
| | | | | • | | - California Division of Forestry |
| 4. <u>Road Construction & Maintenance</u> | • | | | | | - San Mateo County Public Works Dep't (Road Division) |
| | | | | • | | - Caltrans |
| 5. <u>Flood Control & Storm Drainage</u> | • | | | | | - San Mateo County Public Works Department, Flood Control & Water Services: |
| | | | | | | - San Francisquito Creek Flood Zone No. 1 |
| | | | | | | - San Francisquito Creek Flood Zone No. 2 |
| | | | | | | - Ravenswood Slough Flood Zone |
| | | | | | | - East Palo Alto Gardens Drainage District |
| | | | | | | - East Palo Alto Drainage Maintenance District |

Table II-2, continued

| Government Service | Type of Agency | | | | Name of Service Provider |
|---|-------------------|-----------------|----------------------|----------------------|---|
| | County Department | County District | Independent District | Private Organization | State or Federal Agency |
| 6. <u>Street Lighting</u> | • | | | | - San Mateo County Public Works Department: - Ravenswood Highway Lighting District |
| 7. <u>Water Supply</u> | | • | • | | - Palo Alto Park Mutual Water Company - O'Connor Tract Cooperative Water Company |
| | • | | | | - San Mateo County Public Works Department, Flood Control & Water Services - East Palo Alto County Waterworks District |
| 8. <u>Sewage Treatment & Disposal</u> | | • | • | | - East Palo Alto Sanitary District - Menlo Park Sanitary District |
| 9. <u>Refuse Disposal</u> | | | • | | - San Mateo County Scavenger Co. (County Service Area No. 5 - contract service) |
| 10. <u>Parks & Recreation</u> | • | • | | | - Ravenswood Recreation and Parks District - San Mateo County Department of Parks & Recreation - Mid-Peninsula Open Space District |
| 11. <u>Planning & Building Inspection</u> | • | | | | - San Mateo County Department of Environmental Management, Planning Division and Development Division - East Palo Alto Municipal Council |

| Government Service | Type of Agency | | | | | Name of Service Provider |
|--|-------------------|-----------------|----------------------|----------------------|-------------------------|--|
| | County Department | County District | Independent District | Private Organization | State or Federal Agency | |
| 12. <u>Social & Health Services</u> | • | | • | | | - San Mateo County Dep't of Public Health & Welfare - Drew Medical and Dental Center - Economic Opportunity Commission, Inc. |
| 13. <u>Housing & Community Development</u> | • | | | | | - San Mateo County Housing & Community Development Division - San Mateo County Housing Authority |
| 14. <u>Transit</u> | | | • | | | - Samtrans |
| 15. <u>Library</u> | • | | | | | - San Mateo County Library, East Palo Alto Branch |
| 16. <u>Animal Control</u> | • | | | | | - Peninsula Humane Society (County of San Mateo contract) |
| 17. <u>Other General Government Services</u> | • | | | | | - San Mateo County - East Palo Alto Municipal Council |
| 18. <u>Emergency Services</u> | | | • | | | - Menlo Park Fire Protection District - Medevac, Inc. (County of San Mateo contract) |
| 19. <u>Civil Defense</u> | • | | | | | - San Mateo County Civil Defense |

Source: McDonald & Associates

Table II-3

RESPONSIBILITY FOR GOVERNMENTAL SERVICES FOLLOWING INCORPORATION

Municipal Services Potentially Provided by East Palo Alto

- * General Government
- * Police Protection
- Fire Protection and Emergency Services
- Public Works
 - * - Road Construction and Maintenance
 - Flood Control and Storm Drainage
 - Street Lighting
 - Water Supply
 - Sewage Treatment and Disposal
- Local Parks and Recreation
- * Planning and Building Inspection
- Library
- * Animal Regulation
- * Civil Defense

Countywide and Regional Services Continued to Residents of City of East Palo Alto

- Social Services
- Health Services
- Courts and Criminal Prosecution
- Regional Parks
- Voter Registration and Election Administration
(City is responsible for cost of municipal elections.)
- Transit
- Other Governmental Services
 - Assessor
 - Treasurer
 - Recorder
 - Etc.
- Emergency Medical Service
- Community College

* Services marked with asterisk must be provided by a City of East Palo Alto, either directly or by contract.

Source: McDonald & Associates

A new municipal government also has the possibility of expanding or reducing, within legal limits, levels of service, and it may initiate entirely new services.

The base case costs and revenues estimated for this study include all the services normally provided by municipalities, regardless of which entity presently administers them for East Palo Alto. The 1978-79 fiscal year was chosen as a base year because it permits use of the most up-to-date information. It may not, however, be completely representative, particularly of revenues, primarily because Proposition 13 caused major disruptions in local government financing. Actual financing of a new city will be within the framework of permanent state legislation for Proposition 13 bailout and Local Agency Formation Commission decisions.

B. Existing Maintenance and Operating Costs and Revenues

Following the identification of municipal services, extensive interviews were held with existing service providers. These data, in combination with other financial data, formed the basis of the following conclusions. The major municipal services are described and an estimated financial schedule is offered. While some of this information is exact, coming directly from agencies whose costs and revenues are normally associated with the boundaries of East Palo Alto, some estimates are based on non-separated costs. On the whole, these data represent an accurate estimate of existing municipal service costs and revenues. These variations are discussed with each municipal service.

1. Police Protection

Law enforcement is provided to East Palo Alto by the San Mateo County Sheriff's Department and the California Highway Patrol. The Sheriff's Department provides law enforcement to all unincorporated areas of the county and, under contract, to several cities. East Palo Alto contracts for additional police services above the normal level through County Service Area No. 5, a special district created specifically for this purpose. Sheriff's Department services include patrol, criminal investigation, crime prevention, communications, and crime laboratory services. A sheriff's substation is located in East Palo Alto under the authority of a substation commander. The commander maintains close liaison with the East Palo Alto Municipal Council on matters related to law enforcement. The Council also maintains an advisory relationship with the California Highway Patrol, although it has no policy authority over either the Sheriff's Department or the Highway Patrol.

The combined efforts of the Sheriff's Department and the Highway Patrol provide a high level of service. The ratio of officers to total population in the area is presently 1 per 543 residents, considerably higher than the average of 1 per 770 identified in a survey of comparable urban areas (R-10). The Sheriff's Department maintains a full time staff of 31, of which 25 are sworn officers. The remaining staff includes a clerk and community service officers. Three community service officer positions are currently vacant. The California Highway Patrol has six officers assigned to the area.

East Palo Alto has the highest per capita crime rate in San Mateo County for both misdemeanor and felony crimes. This crime rate has declined over the past several years. The drop in crime can be attributed to increased patrols (East Palo Alto is presently the most heavily patrolled area in San Mateo County), reduction in the number of juveniles in the general population, and community supported crime prevention programs.

Table II-4 shows Sheriff's Department and Highway Patrol staffing in East Palo Alto. The Sheriff's staff is divided into three shifts. Highway Patrol personnel are distributed between two units between 6 a.m. and 1 a.m. and one two-man unit between 1 a.m. and 6 a.m.

Table II-5 shows current estimated costs and revenues for the Sheriff's Department services to East Palo Alto.

2. Fire Protection and Emergency Services

East Palo Alto currently receives fire protection and emergency services by the Menlo Park Fire Protection District, a special district, and from the California Division of Forestry. The Menlo Park Fire Protection District serves most of East Palo Alto. The Division of Forestry provides service to a few small areas within East Palo Alto, under contract to San Mateo County. Since the Menlo Park Fire Protection District serves the vast majority of East Palo Alto residents, it is the only fire protection service provider analyzed in detail here.

The Menlo Park Fire Protection District serves a large area of southern San Mateo County, including the cities of Menlo Park and Atherton and the unincorporated communities of East Palo Alto, North Fair Oaks, Dumbarton Oaks, the Sequoia tract, and University Heights. East Palo Alto comprises approximately 10% of the district's land service area.

Table II-4

CURRENT LAW ENFORCEMENT PERSONNEL
ASSIGNED TO EAST PALO ALTO

San Mateo County Sheriff's Department, East Palo Alto Substation

| | | |
|-------|----|---|
| | 1 | Lieutenant |
| | 4 | Sergeants |
| | 19 | Deputies |
| | 1 | Evidence Technician |
| | 1 | Steno-Clerk |
| | 5 | Community Service Officers ⁽¹⁾ |
| Total | 31 | Sheriff's Department Personnel |

California Highway Patrol

| | | |
|-------|---|--------------------------|
| | 6 | Patrol Officers |
| Total | 6 | Highway Patrol Personnel |

TOTAL 37 Law Enforcement Personnel

(1) Only three positions are currently filled

Sources: San Mateo County Sheriff's Office
California Highway Patrol, San Mateo County Substation

Table II-5

SCHEDULE OF EXISTING COSTS AND REVENUES

| | | | | | | |
|--|-------------------|---|----------------------|-----------------------------------|---|--------|
| Service: POLICE PROTECTION | | Agency: San Mateo County Sheriff's Department | | | | |
| Boundary(s): Countywide agency. This includes an additional increment of service provided to the County Service Area No. 5 (East Palo Alto). A Sheriff's Substation is located in East Palo Alto | | | | | | |
| Separable Costs (1978 - 1979) | | Revenues (1978 - 1979) | | | | |
| Type of Cost | Cost (Dollars) | County or District Gen. Funds | Fees, Assessments | Federal Grants, Subventions | State Grants, Subventions | Other: |
| - Salary and Employee Benefits | \$1,092,709 | | | \$65,000 ⁽¹⁾ | \$180,829 ⁽²⁾ | |
| - Services and Supplies | \$ 155,061 | \$985,406 ⁽⁵⁾ | | | \$ 10,965 ⁽³⁾ \$ 5,570 ⁽⁴⁾ | |
| TOTALS | \$1,247,770 | \$985,406 ⁽⁵⁾ | | \$65,000 | \$197,364 | |
| TOTAL | | | | | | |

¹ CETA funding for the community service officers.² CSA No. 5 share of state bailout funds.³ Homeowners property tax relief.⁴ Business inventory tax relief.⁵ Approximately \$390,000 was derived from CSA No. 5 property taxes in 1978-79.

Table II-5, continued

SCHEDULE OF EXISTING COSTS AND REVENUES

| | | | | | | |
|---|-------------------|-----------------------------------|----------------------|-----------------------------------|---------------------------------|--------|
| Service: Police Protection | | Agency: California Highway Patrol | | | | |
| Boundary(s): Statewide agency. Provides traffic control services to unincorporated areas of San Mateo County, including East Palo Alto. | | | | | | |
| Separable Costs (1978 - 1979) | | Revenues (1978 - 1979) | | | | |
| Type of Cost | Cost (Dollars) | General Fund | Fees, Assessments | Federal Grants, Subventions | State Grants, Subventions | Other: |
| - Salaries and Employee Benefits | \$211,025 | | | \$51,548 | \$159,477 | |
| - Services and Supplies | <u>13,280</u> | | | <u>2,822</u> | <u>10,458</u> | |
| TOTALS | \$224,306 | | | \$54,371 | \$169,935 | |

The District maintains six fire stations, one of which is in East Palo Alto. Services provided by the District include: extinguishing fires, fire prevention, building and home inspection, and emergency medical services.

The District is governed by a Board of Directors elected by the residents of the District. Until the passage of Proposition 13, the District was financed by a general tax assessment. In 1977-78, this tax rate was \$0.6946 per \$100 assessed value. Proposition 13 effectively reduced this tax revenue to an equivalent of 0.026118% of the total county tax revenue (or \$1,677,000) for the 1978-79 fiscal year, a 50% revenue loss to the District. In 1978-79, the state bailout legislation, SB 154, provided funds which brought revenues up to 94% of the 1977-78 budget.

The District provides a high level of service to East Palo Alto. Each city and unincorporated area in California has a fire rating or fire insurance code which indicates the level of risk for the purpose of fire insurance underwriting. The Insurance Service Office (ISO) provides this rating in the form of a scale of one (best) to ten (unserved). An average rating for an urban area is four or five. East Palo Alto is rated three. Response time in East Palo Alto for emergencies or fires ranges from zero to four minutes, depending on proximity to the fire station.

In addition to the service provided by the fire station in East Palo Alto, the District provides back up support from other district stations and other fire protection agencies in case of a serious fire.

East Palo Alto has a high incidence of fire relative to other parts of the District. While East Palo Alto comprises 10% of the district's area and approximately 25% of its population, it accounts for almost 50% of the fires. Calls for fire and emergency services in East Palo Alto average four per day, of which three are calls for emergency medical service. Table II-6 shows the existing staffing at the fire district's East Palo Alto station. This staff is distributed over three four-person shifts during a given day. Table II-7 shows current estimated costs and revenues for the fire protection and emergency services provided to East Palo Alto.

Ambulance and paramedic services are provided to East Palo Alto by a private firm, Medevac, Inc., under contract to the County of San Mateo. An ambulance unit is located at the Drew Medical Center in East Palo Alto. The county contracts for ambulance service on a countywide basis, including San Mateo County's cities. The cost of operating the unit located at Drew is approximately \$190,000.

Table II-6

CURRENT STAFFING AT MENLO PARK FIRE DISTRICT STATION #2,
EAST PALO ALTO

Personnel Assigned to Station #2

- 1 - Captain
- 2 - Lieutenants
- 3 - Engine Operators
- 4 - Fire Fighters

Personnel Assigned at District Headquarters
Providing Emergency Support to Substations

- 3 - Battalion Chiefs
- 3 - Fire Fighters

Source: Menlo Park Fire District

TABLE II - 7

SCHEDULE OF EXISTING COSTS AND REVENUES

| | | | | | | |
|---|-------------------|---|----------------------|-----------------------------------|---------------------------------|--------|
| Service: Fire Protection | | Agency: Menlo Park Fire Protection District | | | | |
| Boundary(s): Special District encompasses the city of Menlo Park, east Palo Alto, Atherton, North Fair Oaks, Dumbarton Oaks, Sequoia Tract, and University Heights. Six stations are maintained, one in east Palo Alto. | | | | | | |
| Separable Costs (1978 - 1979) | | Revenues (1978 - 1979) | | | | |
| Type of Cost | Cost (Dollars) | District General Fund | Fees, Assessments | Federal Grants, Subventions | State Grants, Subventions | Other: |
| ● Salary and Employee Benefits | | | | | | |
| - Personnel assigned to Station #2 | \$349,440 | | | | | |
| - Support staff | 29,120 | | | | | |
| | | \$272,757 ¹ | | | \$189,543 ¹ | |
| ● Maintenance, Service and Supplies | 69,140 | | | | | |
| ● Contingencies | 14,600 | | | | | |
| TOTALS | \$462,300 | \$272,757 | | | \$189,543 | |

¹ Prorated share of district-wide revenues based on SB 154 "Bail-out" funds and portion of county general fund, as restrictions by Proposition 13.

3. Public Works

a. Roads

Roads within the East Palo Alto area are built and maintained by the San Mateo County Public Works Department and the California Department of Transportation. The San Mateo County Road Division is responsible by state law and county charter for the design, construction and maintenance of all county roads except state highways and roads within incorporated cities or on private property. The county also provides related facilities such as storm drains within the street right-of-way. The California Department of Transportation is responsible for design, construction and maintenance of all highways and related facilities statewide and provides these services on state highways within the East Palo Alto area.

The Department of Public Works provides roads to meet current structural standards and to accommodate the usage indicated in the County General Plan. Among the stated objectives in the 1978-79 proposed budget are "...to construct the roads listed according to structural standards and to accommodate the usage indicated on the County General Plan; to provide additional safety by the installation of signals, left-turn storage lanes, and pavement markers; and to maintain all roads within county jurisdiction in a condition that is safe for the traveling public." The engineering design standards require curbs and gutters on all new street construction. Service standards are a function of community desires as reflected by adopted general plans and the actions of legislative bodies in providing the required project approvals. Service standards may conflict with the engineering standards. For example, county engineering standards for curbs would impose urban design values on East Palo Alto.

The road system in East Palo Alto consists of some 38.07 miles of roads and streets. Of these, 8.35 miles are on the select system and 29.72 are on the minor street system. Within its jurisdiction in San Mateo County, the Public Works Department is responsible for a Road Improvement Program that is delineated in the Capital Improvement Program (CIP). This CIP includes capital improvement projects that are programmed over a five year period. The status of these projects ranges from those that are "Approved Concept Plans" to those that are approved projects and are included in the current year county budget. The projects in all cases represent the recommendations of the Public Works Department. They are, however, subject to adoption as the transportation element of the County General Plan. They may also be affected by any modifications of the current policies used to distribute road funds. The CIP projects recommended for the East Palo Alto area for the 1978-79 through 1982-83 period are discussed in Chapter III.

San Mateo County's Annual road budget is approximately eight million dollars (\$8,000,000). Most of this is derived from highway users gasoline taxes, with smaller amounts coming from miscellaneous sources, such as vehicle code fines, interest on deposits, and federal grants. The five year total for the recommended Road Improvement Program is \$25,441,000, an average of \$5,000,000 per year. (Of this amount, \$441,000 is available because of an underestimation of revenues in prior years.) An average of \$4,000,000 of this amount per year is programmed for construction in unincorporated portions of the county. During this five year period, East Palo Alto is programmed to receive a total of \$12,500,000 for the construction of roads and related facilities. Of this road improvement expenditure, \$870,000 is expected to be financed by HCDA, but it has not been specifically allocated by the county's housing and community development program.

Road maintenance for the East Palo Alto area is provided by the county Public Works Department. For the last fiscal year, the amount expended for this purpose was approximately \$88,000, as shown in Table II-8. This expenditure varies from year to year depending on the road maintenance required.

Ongoing funding for road construction and maintenance is derived primarily from state gas tax subventions and Federal Highway Administration Federal Aid Urban (FAU) funds. Under state subventions, three types of funds are available:

- 2106 Funds. Their use is restricted to capital improvements except under conditions discussed later.
- 2107 Funds. These are discretionary and may be used for capital, maintenance, or other uses.
- 2107.5 Funds. These are planning funds available to cities. They may be used only for engineering and administrative expenses for city streets.

The state gas tax subventions are available according to a formula based generally on vehicle registration and relative amount of total assessed value in the unincorporated area. The amount of these revenues available to East Palo Alto is discussed in Chapter IV.

b. Flood Control/Storm Drains

Flood control districts are set up to provide and maintain those facilities not within the right-of-way of roads. In East Palo

TABLE II - 8

SCHEDULE OF EXISTING COSTS AND REVENUES

| | | | | | | |
|--|--------------------------------|--|----------------------|-----------------------------------|---------------------------------|--------|
| Service: Roads and Storm Drainage | | Agency: San Mateo County Public Works Department | | | | |
| Boundary(s): San Mateo County Public Works Department operates and maintains roads in the unincorporated portions of San Mateo County except on state highways or private property. The annual costs shown in this table are for the East Palo Alto area and are within the boundaries identified as area 6 by San Mateo County Road Department. | | | | | | |
| Separable Costs (1978 - 1979) | | Revenues (1978 - 1979) | | | | |
| Type of Cost | Cost ¹ (Dollars) | County General Fund | Fees, Assessments | Federal Grants, Subventions | State Grants, Subventions | Other: |
| Annual operating and maintenance of roads and storm drainage facilities within the road right-of-way. | \$88,100 <hr/> | | | | \$88,100 <hr/> | |
| TOTALS | \$88,100 | | | | \$88,100 | |

¹ Maintenance costs may vary substantially from year to year, depending on needs.

Alto those services are provided primarily by two entities:

- The Palo Alto Gardens Drainage Maintenance District (PAGDMD);
- The East Palo Alto Drainage Maintenance District (EPADMD).

Both districts are governed by the San Mateo County Board of Supervisors.

Both districts' facilities are designed to afford protection from a ten year storm. The San Mateo County Public Works Department Capital Improvement Program (CIP) has programmed \$6,000,000 in capital improvements for the five year period from 1978-79 through 1982-83. The districts' revenues are derived primarily from local property taxes.

Traditionally, drainage maintenance district costs were covered by a local property tax levy. In 1978-79, because of Proposition 13, the maintenance costs were covered primarily with county gas tax revenue. A recent state law (R-7) allows the county to levy a benefit assessment on local property owners for maintenance services.

There is an inconsistency between the amounts shown budgeted for flood control projects and the amounts of capital expenditures shown for storm drainage projects. This is because the East Palo Alto-Belle Haven storm drain project, a mitigation measure associated with construction of the new Dumbarton Bridge, is a joint effort of the state, San Mateo County, and the City of Menlo Park. It represents a comprehensive approach to drainage in the Unit I and Unit II watersheds, including a network of collectors, major trunk lines, and pump stations to discharge storm waters into San Francisco Bay. Funding for the project is from the state, San Mateo County, the City of Menlo Park, and a federal Department of Housing and Urban Development grant. Operating and maintenance costs for the two districts are shown in Table II-9.

Several county flood control districts include portions of East Palo Alto, although no major facilities exist in East Palo Alto and maintenance costs attributable to East Palo Alto are minimal.

4. Street Lights

The Ravenswood Highway Lighting District serves all of the East Palo Alto area. It is governed by the San Mateo County Board of Supervisors.

TABLE II - 9

SCHEDULE OF EXISTING COSTS AND REVENUES

| | | | | | | |
|-------------------------------|-------------------------|---|----------------------|-----------------------------------|---|----------------------|
| Service: Flood Control | | Agency: Palo Alto Gardens Drainage Maintenance District | | | | |
| Boundary(s): | | | | | | |
| Separable Costs (1978 - 1979) | | Revenues (1978 - 1979) | | | | |
| Type of Cost | Cost (Dollars) | County General Fund | Fees, Assessments | Federal Grants, Subventions | State Grants, Subventions | Other: |
| ● Engineering Services | \$14,400 ⁽⁴⁾ | | | | | |
| ● Contingencies | 600 | \$14,414 ⁽⁵⁾ | | | \$156 ⁽²⁾ 80 ⁽³⁾ | \$350 ⁽¹⁾ |
| TOTALS | \$15,000 | \$14,414 | | | \$236 | \$350 |

¹ Interest² Homeowners Property Tax Relief³ Business Inventory Tax Relief⁴ Maintenance costs vary annually, depending on needs.⁵ Based partially on district property tax.

Table II-9, continued

SCHEDULE OF EXISTING COSTS AND REVENUES

| | | | | | | |
|-------------------------------|------------------------|--|----------------------|-----------------------------------|---|----------------------|
| Service: Flood Control | | Agency: East Palo Alto Drainage Maintenance District | | | | |
| Boundary(s): | | | | | | |
| Separable Costs (1978 - 1979) | | Revenues (1978 - 1979) | | | | |
| Type of Cost | Cost (Dollars) | County General Fund | Fees, Assessments | Federal Grants, Subventions | State Grants, Subventions | Other: |
| ● Engineering Services | \$7,640 ⁽⁴⁾ | \$7,290 ⁽⁵⁾ | | | \$73 ⁽²⁾ ⁽³⁾ \$37 | \$250 ⁽¹⁾ |
| TOTALS | \$7,640 | \$7,290 | | | \$100 | \$250 |

¹ Interest² Homowners Property Tax Relief³ Business Inventory Tax Relief⁴ Maintenance costs vary annually depending on needs.⁵ Based partially upon district property tax.

The district contracts with the Pacific Gas and Electric Company for street lighting services. Some street lights have been installed in the district using Department of Housing and Urban Development funds and dedicated to PG&E for maintenance.

Lighting service is generally considered to have a number of problem areas. The San Mateo County Sheriff's department has identified twelve "trouble spots" where new lights would be desirable. The capital cost does not present a problem. PG&E would install the lights, with the only cost being a monthly service charge.

Proposition 13 effectively eliminated the district's own tax rate. It may now have to change from the property tax to some other type of service charge or assessment that is benefit related. In 1978-79, the district was funded with state SB 154 bailout funds, state gas tax subventions, and property tax subvention funds. Operating and maintenance costs for the district are shown in Table II-10.

5. Water Supply

Water service is provided to the East Palo Alto area by the following agencies:

- o East Palo Alto Waterworks District. This is by far the largest of the three. It utilizes water primarily from the San Francisco Hetch Hetchy System.
- o Palo Alto Park Mutual District. This corporation provides water service from a well system for a portion of the East Palo Alto area north of the Bayshore freeway and bounded generally by Menalto Avenue on the west, Bay Road on the north, and Euclid Avenue on the east.
- o O'Connor Tract Mutual District. This non-profit corporation provides water service for that portion of East Palo Alto south of the Bayshore freeway and west of Euclid Avenue.

The two private water companies are financed by user charges. Although there appear to be some water service problems in these areas, annexation of the water companies to the East Palo Alto Water District is unlikely. Detailed cost and revenue data for the water companies was not acquired because they would not be affected.

The East Palo Alto Waterworks District is governed by the San Mateo County Board of Supervisors. It is entirely self-supporting out of user revenues. The district purchases water wholesale from the San Francisco Water Department's Hetch Hetchy system and transmits it through its network of watermains and laterals. In addition, the district will drill two new wells which will permit a reduction in the amount of Hetch Hetchy water required, at a net savings of \$50,000 per year.

TABLE II - 10

SCHEDULE OF EXISTING COSTS AND REVENUES

| | | | | | | |
|---|-------------------|--------------------------------------|----------------------|-----------------------------------|--|--------|
| Service: Street Lights | | Agency: Ravenswood Lighting District | | | | |
| Boundary(s): All of the East Palo Alto Area | | | | | | |
| Separable Costs (1978 - 1979) | | Revenues (1978 - 1979) | | | | |
| Type of Cost | Cost (Dollars) | General Fund | Fees, Assessments | Federal Grants, Subventions | State Grants, Subventions | Other: |
| ● Engineering Services | \$61,409 | | | | \$29,014 ⁽¹⁾ 29,961 ⁽²⁾ 1,614 ⁽³⁾ 820 ⁽⁴⁾ | |
| TOTALS | \$61,409 | | | | \$61,409 | |

¹ State gas tax revenue.³ Homeowners property tax relief.² SB 154 state bailout revenue.⁴ Business inventory tax relief.

The East Palo Alto Waterworks District service currently meets or exceeds county and state standards, except for fire protection which is limited in some areas by pipes that are too small. For the past seven years, all new installations have been designed to contemporary municipal service standards. Non-reactive materials have been used and installed at sufficient depth to avoid corrosion or disruption. In anticipation of more stringent fire protection requirements in the next few years as property values rise, oversize water pipes are being installed in all new mains.

With increased revenues from water service rate increases in 1972 and 1974, the district has undertaken a program of increased engineering and management services, upgraded maintenance, and implementation of a capital improvement program to replace a portion of the distribution lines that need upsizing and replacement. Since the 1973-74 fiscal year, \$303,000 has been committed to capital improvements. Additional improvements are still required in many parts of the district. These have mostly been programmed in the CIP. In setting priorities, those facilities with excessive maintenance costs were scheduled for earliest replacement. Low capacity problems were considered as a low priority. The schedule of capital improvements has been developed beyond the usual five year period and, depending on future water sales revenues, could take up to ten years to complete. The estimated cost of the improvements is \$399,200 within five years and \$328,000 for those improvements that would be completed beyond the five year period.

Funds for improvements and for maintenance and operation of the system come from user fees. One exception to this is a 30 year, 5½% loan of \$520,000 from the state which is being used for a well and mains in the Bay-Newbridge corridor and which is being repaid at approximately \$32,000 per year. Revenue to repay the loan is expected to come from savings through the use of well water. Operating and maintenance costs for the district are shown in Table II-11.

6. Sewage Treatment

Sewage treatment, collection and disposal is provided by the East Palo Alto Sanitary District (EPASD) and the Menlo Park Sanitary District (MPSD). By far the larger portion of East Palo Alto is served by the EPASD. The exceptions are parts of the University Village area and the Bayshore Park area.

The EPASD is a special district governed by its own elected Board of Directors. The Board is authorized by law to levy taxes on property (a power effectively eliminated by Proposition 13) and charge users for its services. The district owns the

Table II-11

SCHEDULE OF EXISTING COSTS AND REVENUES

| | | | | | | |
|--|-------------------|--|----------------------|-----------------------------------|---------------------------------|--------------------|
| Service: Water | | Agency: East Palo Alto Waterworks District | | | | |
| Boundary(s): All of the East Palo Alto area except a portion bounded generally by Euclid Avenue on the east, Bay Road on the north, Poplar Avenue on the east and O'Connor on the south. These excluded areas are served by the O'Connor Water District and the Palo Alto Park Maintenance District. | | | | | | |
| Separable Costs (1978 - 1979) | | Revenues (1978 - 1979) | | | | |
| Type of Cost | Cost (Dollars) | General Fund | Fees, Assessments | Federal Grants, Subventions | State Grants, Subventions | Other: Interest |
| • Services and Supplies | \$622,305 | | \$599,500 | | | \$ 7,000 35,805 |
| • Contingencies | 20,000 | | | | | |
| TOTALS | \$642,305 | | \$599,500 | | | \$42,805 |

collecting system of mains and laterals. It contracts with the City of Palo Alto for treatment and discharge of sewage. Under the agreement, the EPASD can discharge up to 2,250,000 gallons per day. For these capacity rights, it is obligated to pay Palo Alto approximately \$52,000 per year until 1981 as a share of the capital cost of the treatment plant, in addition to an average of \$120,000 per year for treatment costs.

There are two sets of standards that the EPASD wastewater system must meet. The first regards the sufficiency of the conveying system of laterals and mains. These should be of sufficient size and gradients to allow sewage to flow under gravity. The integrity of the system should be such as to prevent infiltration of groundwater into the mains or exfiltration of effluent into the ground and water table. The second set of standards concerns the degree of treatment of the sewage before its discharge into waterways.

Because the EPASD contracts for the treatment of its sewage and in all probability will continue to do so, the problems it is concerned with are those of the collecting system. In a 1973 study of the EPASD system, the district's consulting engineer found several deficiencies (R-2). Briefly stated they were:

- Deficiencies in capacity with the possibility of sewage backup and overflow;
- Infiltration of groundwater through deteriorated pipe joints;
- Lines operating under pressure with the possibility of exfiltration of sewage into the water table.

In order to remedy these deficiencies, the consultant's report recommended that several improvements be undertaken in a seven stage program. The EPASD Board has adopted these recommendations as its capital improvement program. Three of these improvements were considered to require immediate implementation. The first and most expensive, replacement of twelve and fourteen inch wood stave pipe along the levee to prevent sewage overflow, has been completed. The second, replacement of sewer lines along Green and Beech streets, was partially completed before work was suspended due to litigation with the contractor. Work has not yet started on the third, sealing of sewer lines between levee and Cooley Avenue. The other improvements were not viewed as immediate needs and were scheduled for implementation from 1980 to 1989. The costs and recommended implementation dates of these projects are shown in Table III-1. Work on the CIP projects will resume when litigation is concluded.

In the past there have been two sources of revenue available to the EPASD, a property tax and user fees. The property tax generated approximately \$80,000 during the 1978-79 fiscal year. The other source is a service charge to users that operates on a scale beginning at \$27.00 for a single family residence and is adjusted upward for multiple units. The service charge provided nearly \$160,000 during the 1978-79 fiscal year. The district's revenues are placed in a single fund which covers all expenses. Operating and maintenance costs for the district are shown in Table II-12.

7. Refuse Disposal

East Palo Alto receives refuse disposal service from the San Mateo County Scavenger Company, under a contract with County Service Area No. 5. The service is mandatory and is entirely supported by user charges placed on the property tax bill.

8. Parks and Recreation

Parks and recreation services are provided to East Palo Alto by the Ravenswood Recreation and Parks District, a special district, and the Mid-Peninsula Open Space District. The Ravenswood District boundaries are generally coterminous with County Service Area No. 5 (East Palo Alto). The district was formed in 1951. The Mid-Peninsula Open Space District is a regional agency which includes a portion of San Mateo County.

The Ravenswood District's recreation facilities include three local parks. The Ravenswood Center Park is the main facility, located on a four and one-half acre site at University Avenue and Bell Street. Major improvements at the Center Park include a gymnasium, offices for the district's related activities, a social center, meeting rooms, and the community swimming pool. Other improvements include a kiosk area, a tot lot, volleyball courts, horse shoe pits, shuffle board courts, barbecue pits and picnic tables. Jack Farrell Park, located on a three and one-half acre site at Michigan Avenue and Fordham Street, and Martin Luther King Field, located on a two and one-half acre site on Daisy Lane off O'Connor Street owned by the Sanitary District, are developed primarily as baseball fields.

By national standards, the local parks provided by the district are only marginally adequate. Table II-13 shows standards used by national agencies for neighborhood parks. East Palo Alto, with a total of ten and one-half acres of neighborhood parks and a population of approximately 18,000 people, has one acre

Table II-12

SCHEDULE OF EXISTING COSTS AND REVENUES

| | | | | | | |
|---|----------------|--|-------------------|-----------------------------|---------------------------|-----------------------|
| Service: Wastewater Collection and Treatment | | Agency: East Palo Alto Sanitary District | | | | |
| Boundary(s): The East Palo Alto area except a portion northerly of Bay Road and westerly of Menalto. The excluded portion is served by the Menlo Park Santary District. | | | | | | |
| Separable Costs (1978 - 1979) | | Revenues (1978 - 1979) | | | | |
| Type of Cost | Cost (Dollars) | District General Fund | Fees, Assessments | Federal Grants, Subventions | State Grants, Subventions | Other: |
| • Salaries and Employee Benefits | \$ 55,140 | | | | | |
| • Maintenance and Operation Costs | 165,661 | \$105,102 | \$158,728 | | \$4,623 ² | \$10,000 ¹ |
| • Debt Service | 60,000 | | | | \$2,348 ³ | |
| TOTALS | \$280,801 | \$105,102 | \$158,728 | | \$6,971 | \$10,000 |

¹ Interest² Homeowners and Property Tax Relief³ Business Inventory Tax Relief

TABLE II - 13

COMPARISON OF SPACE STANDARDS FOR NEIGHBORHOOD PARKS

| Reference Source | National Average: 1 Acre per 800 people | Maximum Service Radius (Mile) | Size Range (Acres) | Maximum Population Served |
|--|--|--|--------------------------|---------------------------------|
| U.S. Bureau of Outdoor Recreation Guidebook for Recreation Planning | 1/800 | 1/2 | 4-10 | 8,000 |
| Federal Security Agency | 1/800 | 1/2 | 2.75-6.25 | 5,000 |
| American Public Health Association | 1/800 | 1/2 | 2.75-6.25 | 5,000 |
| National Recreational & Park Association | 1/800 | 1/2 | 2.75-10 | 8,000 |

Source: McDonald & Associates

of park for every 1,714 people. These figures do not reveal the entire story. It is important to recognize programs, facilities, and activities sponsored by the district. The district sponsors active community-oriented recreation programs designed for all age groups, which include competitive team sports, competitive individual sports, and non-competitive activities. In comparison with other cities, these programs are also quite limited.

The district is seeking a large expansion of facilities by purchasing the Ravenswood High School site. Initial approval has been granted for this purchase, but grant funds are being held up by a legal technicality. The school site presently has 106,000 square feet of building on 31.3 acres. This space would be converted to a community recreation center that would increase recreation space available to the community. Table II-14 shows the 1978-79 operating budget for the district.

9. Planning and Building Inspection Services

Planning and building inspection services are provided to East Palo Alto by two agencies, the San Mateo County Department of Environmental Management and the East Palo Alto Municipal Council. The Department of Environmental Management provides zoning, general planning and building inspection services. The East Palo Alto Municipal Council maintains a planning staff to assist the Council in planning matters that affect East Palo Alto and to conduct design review for local development projects. (The cost to East Palo Alto of maintaining this planning staff is included in the discussion of the Municipal Council which follows.)

Planning and building inspection services are financed by a combination of fees and the county general fund. Because East Palo Alto is largely developed, only a small amount of new construction is occurring, although there is a significant amount of rehabilitation. Building inspection is therefore limited to this remodelling activity and the small number of new homes and apartments that are constructed.

Because no area-by-area statistics are maintained by the county Building Inspection Division, it is difficult to determine costs and revenues related to inspection services in East Palo Alto. An estimate of services equal to one full-time inspector has been used as the basis for the cost calculation.

Planning services are also difficult to estimate. The planning department primarily provides zoning and subdivision ordinance administration. These services are estimated to equal an additional one-half time commitment of a planner.

TABLE II - 14

SCHEDULE OF EXISTING COSTS AND REVENUES

| | | | | | | |
|--|-------------------|---|----------------------|-----------------------------------|---------------------------------|--------|
| Service: Local Parks and Recreation | | Agency: Ravenswood Recreation and Park District | | | | |
| Boundary(s): Generally coincidental with county service area #5. | | | | | | |
| Separable Costs (1978 - 1979) | | Revenues (1978 - 1979) | | | | |
| Type of Cost | Cost (Dollars) | General Fund | Fees, Assessments | Federal Grants, Subventions | State Grants, Subventions | Other: |
| ● Salary & Employee Benefits | \$69,630 | \$60,943 | \$4,360 | \$2,207 ³ | \$62,000 | |
| ● Services and Supplies | 88,798 | | | | 8,430 | |
| ● Other Charges (Interest, Debt Retirement and taxes) | 11,250 | | | | 31,738 ² | |
| ● Capital Outlay ¹ | \$1,000,000 | | | \$500,000 | \$500,000 | |
| TOTAL | \$1,169,678 | \$60,943 | \$4,360 | \$502,207 | \$602,168 | |

¹ This represents the proposed purchase of Ravenswood High School.
Grant funds approval is pending at this time.

² This sum was provided as 1978-79 "Bail-out" funds by the state - SB 31
Source (R-10)

³ CETA Reimbursement

Revenues are presently derived from both fees and the county general fund. After Proposition 13, development processing fees rose to nearly 50% of combined planning and building division revenues. Table II-15 shows current estimated costs and revenues for the planning and building inspection services provided to East Palo Alto.

10. Library

Library services are provided to East Palo Alto by the San Mateo County Library, a county department that services nine cities in San Mateo County, as well as the unincorporated areas of the county.

Until the passage of Proposition 13, the county library was financed by a special library tax rate applied to areas of the county served. In 1977-78 this tax rate was \$0.23 per \$1000 assessed value. The revenue restrictions imposed by Proposition 13 reduced county funds for the library by 40%. The state bailout funds in 1978-79 provided some assistance, but service levels dropped considerably, most notably library operating hours, special services, and new materials.

Table II-16 is a profile of the San Mateo County Library Branch at East Palo Alto. The county library is a member of the Peninsula Library System which integrates the county library system with the seven city libraries in San Mateo County. These libraries cooperate and extend services to each other's registered borrowers.

A major reduction in service occurred following the library budget cuts associated with Proposition 13. This reduction in service resulted in a 40% drop in circulation at the East Palo Alto Branch.

Table II-17 shows current estimated costs and revenues for the East Palo Alto Branch Library.

11. Animal Control

Animal control services for East Palo Alto are provided by the Peninsula Humane Society, a private organization that contracts animal control services to San Mateo County. Services provided by the Humane Society include stray animal control, spaying, neutering, and animal shelter and care. Until 1978-79, the Humane Society was also responsible for licensing. In 1978-79, dog licensing was permanently transferred to the county tax

TABLE II - 15

SCHEDULE OF EXISTING COSTS AND REVENUES

| | | | | | | |
|---|-------------------|---|----------------------|-----------------------------------|---------------------------------|--------|
| Service: Planning & Building Inspection | | Agency: San Mateo Dept. of Environmental Management | | | | |
| Boundary(s): County wide | | | | | | |
| Separable Costs (1978 - 1979) | | Revenues (1978 - 1979) | | | | |
| Type of Cost | Cost (Dollars) | General Fund | Fees, Assessments | Federal Grants, Subventions | State Grants, Subventions | Other: |
| ● Salaries & Employee Benefits | \$31,700 | | | | | |
| ● Services and Supplies | 4,760 | \$20,204 | \$14,463 | \$1,063 | \$200 | \$220 |
| TOTAL | \$36,150 | \$20,204 | \$14,463 | \$1,063 | \$200 | \$220 |

Table II-16

PROFILE OF THE EAST PALO ALTO BRANCH,
SAN MATEO COUNTY LIBRARY, 1978-79

| | |
|---------------------------------------|---------------------|
| Population served | 18,000 [±] |
| Registered borrowers | 6,525 |
| Operating hours | 36 per week |
| Annual circulation | 27,990 ¹ |
| Annual reference | 5,760 |
| Total staff (full time equivalent) | 4.8 |
| Size of facility | 10,572 square feet |
| Number of volumes | 29,955 |

¹ Circulation declined over 40% when the operating hours and other services were reduced because of budget cuts.

TABLE II - 17

SCHEDULE OF EXISTING COSTS AND REVENUES

| | | | | | | |
|--|-------------------|----------------------------------|----------------------|-----------------------------------|---------------------------------|--------|
| Service: Library | | Agency: San Mateo County Library | | | | |
| Boundary(s): County wide agency with 14 branch libraries, one in East Palo Alto. | | | | | | |
| Separable Costs (1978 - 1979) | | Revenues (1978 - 1979) | | | | |
| Type of Cost | Cost (Dollars) | General Fund | Fees, Assessments | Federal Grants, Subventions | State Grants, Subventions | Other: |
| ● Salaries and Employee Benefits | \$79,621 | | \$429 | | \$25,156 ² | |
| ● Services and Supplies | 78,655 | \$132,691 ¹ | | | | |
| TOTAL | \$158,276 | \$132,691 | \$429 | | \$25,156 | |

¹ Library district share of county wide tax rate

² State "Bail out" funds 1978-79

collector. Other sources of revenues in addition to dog license fees include service fees for spaying and neutering, the county general fund, and federal grants (CETA).

Budget cuts associated with Proposition 13 and the loss of CETA personnel for fiscal year 1978-79 caused a reduction in services to East Palo Alto. East Palo Alto has the highest rate of demand for control services in San Mateo County. The number of dogs is proportionally higher than in other areas, and more complaints are received about stray dogs, bites, barking, and other nuisance behavior by dogs. Until 1978-79, East Palo Alto received a higher level of service than other areas of the county. Service reductions have brought East Palo Alto service more in line with other areas of the county, but, because of higher demands, the community's needs are not met as well as in previous years.

Table II-18 shows current estimated costs and revenues for the animal control services provided to East Palo Alto. This table does not include costs or revenues for other humane society services such as spaying or neutering.

12. East Palo Alto Municipal Council

The San Mateo County Board of Supervisors formed the East Palo Alto Municipal Council in 1967. The Municipal Council is an elected body intended to provide community leadership and to advise the County Board of Supervisors and other public service providers on matters affecting East Palo Alto. Continuing activities of the council include:

- Promoting local business and economic development;
- Facilitating the delivery of social and human services;
- Facilitating the delivery of public health and safety services;
- Participating in housing and community development programs in an effort to upgrade the housing stock and encourage social and cultural development;
- Evaluating the possibility of incorporation.

The Municipal Council holds two public meetings a month, in addition to other study sessions and community forums. Other responsibilities of the council and its small staff include coordinating the activities of the East Palo Alto Youth Services Program, administering the County Service Area No. 5 garbage

TABLE II - 18
SCHEDULE OF EXISTING COSTS AND REVENUES

| | | | | | | |
|-------------------------------------|-------------------|------------------------------------|----------------------|-----------------------------------|---------------------------------|--------|
| Service: Animal Control | | Agency: Peninsula Humane Society | | | | |
| Boundary(s): County wide agency. | | | | | | |
| Separable Costs (1978 - 1979) | | Revenues (1978 - 1979) | | | | |
| Type of Cost | Cost (Dollars) | General Fund | Fees, Assessments | Federal Grants, Subventions | State Grants, Subventions | Other: |
| ● Salaries and Employee Benefits | \$6,716 | \$4,043 | \$4,398 | | | |
| ● Services and Supplies | \$1,725 | | | | | |
| TOTAL | \$8,441 | \$4,043 | \$4,398 | | | |

¹ Dog Licences

collection service, and assisting the County Housing and Community Development Division in administering HCDA grant funded projects in East Palo Alto. The council staff also assists the county Department of Environmental Management Planning Division on local project review. The county recently established a design review ordinance for East Palo Alto that is administered by the council's staff.

Funding for the Municipal Council 1978-79 was derived from the county general fund and HCDA grant funds. Costs and revenues are shown in Table II-19.

C. Projection of Base Case Municipal Service Costs

The fiscal comparison of various incorporation alternatives requires a projection of the base case costs of the existing municipal service providers. The following section provides this cost projection for the years 1980 through 1985. As stated earlier, the 1978-79 fiscal year, used in this chapter as a data base, is not particularly representative of the various agencies' fiscal status, primarily because of the state bailout funds to local government mandated by SB 154. Subsequent financing for municipal services will be subject to the recently passed AB 8, which establishes a permanent solution to the fiscal crisis caused by Proposition 13. Initial analysis of the impact of AB 8 on the allocation of property tax revenue indicates that the level of service provided in the 1978-79 fiscal year for most services will be maintained. Although property tax revenue limitations are a key restraint to municipal service providers dependent on them, a further restraint will be applied if the Gann Initiative passes later this year. The Gann Initiative is intended to limit growth in local agency spending to increases related directly to inflation and population growth. This limit will only apply to agencies which derive income from property tax revenues. These agencies are indicated in Table II-20.

The municipal service cost projection is expressed in Table II-20. The services listed include all those currently being provided to East Palo Alto that could potentially be delivered by an incorporated city. Costs for the period 1980-85 are all assumed to increase at the average rate of inflation for government costs. The 1979 costs are based on preliminary 1979-80 budget figures.

Table II-19
SCHEDULE OF EXISTING COSTS AND REVENUES

| | | | | | | |
|---|-------------------|--|------------------------|-----------------------------------|---------------------------------|--------|
| Service: | | Agency: East Palo Alto Municipal Council | | | | |
| Boundary(s): | | | | | | |
| Coterminous with County Service Area No. 5. | | | | | | |
| Separable Costs (1978 - 1979) | | Revenues (1978 - 1979) | | | | |
| Type of Cost | Cost (Dollars) | County General Fund | Fees, Assessments | Federal Grants, Subventions | State Grants, Subventions | Other: |
| ● Salary and Employee Benefits | \$147,331 | | | | | |
| | | \$123,067 | \$6,276 ⁽¹⁾ | \$101,857 | | |
| ● Services and Supplies | \$ 83,869 | | | | | |
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¹ Garbage service under CSA #5.

Table II-20

PROJECTIONS OF BASE CASE MUNICIPAL SERVICE COSTS

| | 1978-79 <u>Separable Costs</u> | 1980-85 Average Annual Operating Costs <u>(1979 dollars)</u> |
|--|-----------------------------------|---|
| Police Protection* | \$1,472,076 | \$1,500,000 |
| Fire Protection & Emergency Services* | 462,300 | 500,000 |
| Public Works | | |
| - Roads | 88,100 | 100,000 |
| - Flood Control & Drainage* | 22,650 | 25,000 |
| Street Lighting* | 61,409 | 105,100 |
| Water Supply | 642,305 | 600,000 |
| Sewage Treatment* | 280,801 | 280,800 |
| Refuse Disposal | 160,466 | 220,000 |
| Parks and Recreation* | 169,678 | 180,000 |
| Planning & Building Inspection* | 36,150 | 38,000 |
| Library* | 158,276 | 166,000 |
| Animal Control* | 8,441 | 8,900 |
| East Palo Alto Municipal Council* | 231,200 | 213,000 |
| TOTAL | <u>\$3,793,852</u> | <u>\$3,936,700</u> |

* These agencies would be subject to Gann Initiative spending limitations.

Source: McDonald & Associates

III. CAPITAL IMPROVEMENTS FOR MUNICIPAL FACILITIES

East Palo Alto has experienced a number of problems with its municipal facilities: flooding; groundwater infiltration into the sanitary sewer system; excessive water service pipe corrosion. Also, many roads are narrow, in poor repair, and lacking curbs and gutters. The capital improvement programs of the responsible agencies are directed at reducing these problems.

Improvements required for East Palo Alto's municipal facilities include improvements to the water supply and sanitary sewer systems, new streets, improvements to existing streets, and improvements to the storm drainage system. Many of the required improvements are under construction or in current capital improvement programs. There are two major problem areas not programmed for repair or construction.

A number of streets in East Palo Alto, especially in the Palo Alto Park area, lack curbs and gutters and are in poor condition. The County Public Works Department estimates that, in addition to projects presently under construction or planned, these 5.37 miles of streets in Palo Alto Park should be repaired. The cost of this work depends largely upon the standards of construction; new surface and shoulders would cost \$567,100. In addition to the streets requiring repair or reconstruction, a number of new streets and cul-de-sacs are required to make better use of land in the Weeks Subdivision. The estimated cost of this work is \$2,485,000.

The other municipal facility requiring improvements not presently reflected in the current capital improvement program is the water distribution system. There are two areas where replacement needs are recognized but not programmed. University Village and Palo Alto Gardens presently have cast iron water service pipes that were installed during the 1920s. These lines are undergoing electrolysis, which is causing gradual deterioration. There are also two alternative solutions to the electrolysis problem. The first is replacing the entire system in these areas with non-reactive asbestos-cement pipe. The estimated cost of this alternative is \$4 to \$6 million. The second alternative, which is far more economical, is installation of cathodic protection on the existing lines. This improvement would extend the useful life of the present system 35-50 years beyond their

present life expectancy. The cost of installing cathodic protection is estimated at \$500,000.

Revenue for the required capital improvements is derived from a variety of local, state, and federal sources. The following paragraphs describe the revenue sources for the four capital improvement categories.

- Street construction and maintenance in San Mateo County are primarily funded by state gasoline tax revenues which are shared with cities and counties. Traffic safety devices are funded with local vehicle code fine revenue. Some specific road projects are funded by federal grants such as Housing and Community Development Act block grants, Federal Highway Administration grants, and Federal Aid - Urban grants. East Palo Alto road projects in the current capital improvement program (R-19) account for over 46% of total programmed expenditures for the entire county planned over the five year period 1978-79 through 1982-83.
- Water service capital improvements and maintenance costs in East Palo Alto are funded directly with user fees and loans serviced by user fees. In 1978, the district received a \$520,000 low interest loan from the State of California Safe Drinking Water Bond Act. In the past, HCDA funds have been used for improvements in the district.
- The East Palo Alto Sanitary District finances its capital improvements directly through user fees and property taxes. The district is on a pay-as-you-go basis and maintains a single fund for all capital and maintenance costs. The base annual service charge for a single family unit is \$27.00. Property taxes continue to contribute to district revenue, although less than prior to Proposition 13 when property tax revenue accounted for 50% of district revenue.
- Storm drainage and flood control projects are funded by county property taxes, state shared gasoline taxes, federal housing and urban development grants, and the California Department of Transportation. Caltrans is planning to construct a major drainage outfall in conjunction with the Dumbarton Bridge project. The outfall will serve both East Palo Alto and parts of Menlo Park.

A recently passed state law, AB 549, will permit drainage districts to levy benefit assessments for services provided to property owners. This law will also permit lighting districts to assess property owners for benefits received.

Under the base case, completion of the capital improvements would remain the responsibility of the existing agencies. Similarly, it is assumed that under either incorporation alternative, the County Public Works Department would retain responsibility for the road and drainage projects presently under construction or approved. The City of East Palo Alto would eventually assume responsibility for future road construction and maintenance.

Table III-1 summarizes capital improvements presently planned or under construction. Table III-2 is a detailed breakdown of the improvements. The cost figures shown are adjusted from the various sources to reflect costs in 1979 dollars. It must be noted that these costs are conservative estimates. Bidding on recent capital improvement program projects indicates some project costs well above initial estimates.

The financing of many of these projects, regardless of the governmental entity responsible, will undoubtedly result in higher costs to service users. The enterprise services such as water and sewer service, may rely on higher user fees, commensurate with increased costs. The services that have depended on property tax revenue or state subventions may have serious problems. This is particularly true for road construction, which in San Mateo County has been almost exclusively funded by state gas tax subventions. These funds are declining in value because of inflation. General obligation bonds secured by property assessed value were effectively eliminated by Proposition 13. Property tax revenue, much reduced by Proposition 13, is projected to increase in real dollars at a very slow rate. Projects dependent upon property tax and gas tax revenues will require additional funding sources in the years to come. These sources may include increased federal grants, increased state subventions, or local assessment districts for specific improvements. The capital improvement program for roads currently includes an assumption that HCDA financing of \$800,000 will be received. However, HCDA has not committed these funds.

Table III-1

SUMMARY OF REQUIRED CAPITAL IMPROVEMENTS

| <u>Capital Improvement Category</u> | <u>Total Capital Cost (1979 dollars)</u> | <u>Planned Sources of Revenue</u> |
|---|--|--|
| <u>Streets</u> | | |
| - In Capital Improvement Program | \$11,812,200 | <ul style="list-style-type: none"> ● State gas tax ● Vehicle code fines ● Housing & Community Development Act Grants ● Other federal grants |
| - Not in Capital Improvement Program | 3,052,100 | |
| <u>Water Supply</u> | | |
| - In Capital Improvement Program | 449,300 | <ul style="list-style-type: none"> ● State loans or bonds financed by user charges |
| - Not in Capital Improvement Program | 500,000 | |
| <u>Sanitary Sewers</u> | 1,059,000 | <ul style="list-style-type: none"> ● Presently entirely financed by user charges & local property tax |
| <u>Storm Drainage & Flood Control</u> | 5,407,300 | <ul style="list-style-type: none"> ● Loans financed by special assessments ● Housing & Urban Development (HUD) grant ● Caltrans ● Housing & Community Development block grants |
| TOTAL | \$22,279,900 | |

Sources: McDonald & Associates
J. Warren & Associates

Table III-2
SCHEDULE OF MUNICIPAL IMPROVEMENTS

| <u>Capital Improvement</u> | <u>Purpose</u> | <u>Present Agency Responsible</u> | <u>Status</u> | Capital ^{1.} Cost (000) (1979 dollars) |
|---|---|-----------------------------------|------------------------------|--|
| I. STREETS (R-12) | | | | |
| A. CIP Budgeted 1978-79 | | | | |
| 1. Bay Road - Newbridge Corridor. Undergrounding of 60 KV Transmission line between Willow Rd. & Cooley Landing Substation. | Substantial cost savings for the remaining road construction portions of the corridor project. | San Mateo Co. | 78-79 Budget | \$ 950.0 |
| 2. East Bayshore Frontage Road. Resurface between Cooley Ave. & San Francisquito Cr. Bridge. | Resurfacing of road. | San Mateo Co. | 78-79 Budget | 64.0 |
| 3. Capital Street | Resurfacing of road. | San Mateo Co. | 78-79 Budget | 6.0 |
| B. CIP Budgeted Prior to 1978-79 | | | | |
| 1. Bay Road - University to Pulgas Ave., Phase I | Construction, utilities undergrounding, right-of-way. | San Mateo Co. | 77-78 Budget | 2,500.0 |
| C. CIP Planning Projects | | | | |
| 1. Newbridge Street. Widen to four lanes between Willow Rd. & Bay Rd. | Rebuild existing curbs, gutters, bicycle lanes both sides & underground utilities. | San Mateo Co. | Approved Concept Plan, 80-81 | 2,660.0 |
| 2. Bay Road - Newbridge St. to University Ave. | Widen to four lanes with curbs, gutters & sidewalks. Includes bicycle lanes each side & utility undergrounding. | San Mateo Co. | Approved Concept Plan, 81-82 | 2,253.1 |
| 3. Bay Road - Pulgas to Cooley Landing. | Widen to four lanes with curbs, gutters & sidewalks. Includes bicycle lanes each side & utility undergrounding. | San Mateo Co. | Approved Concept Plan, 82-83 | 1,992.3 |
| 4. Beech Street - Clark Ave. to Pulgas Ave. (presently unimproved). | Construct standard county improved residential street w/ curbs, gutters & sidewalks. | San Mateo Co. | Approved Concept Plan, 82-83 | 291.0 |
| 5. Garden St. - Clark Ave. to Pulgas Ave. (presently unimproved). | Construct standard county improved residential street w/ curbs, gutters & sidewalks. | San Mateo Co. | Approved Concept Plan, 82-83 | 282.9 |

Table III-2, Continued

| <u>Capital Improvement</u> | <u>Purpose</u> | <u>Present Agency Responsible</u> | <u>Status</u> | <u>Capital Cost</u> (000) (1979 dollars) |
|--|---|-----------------------------------|------------------------------|--|
| <u>I. STREETS (C. Planning Projects, cont.)</u> | | | | |
| 6. Runnymede St. - Cooley Ave. to Clarke Ave. (presently unimproved). | Construct standard county improved residential street w/ curbs, gutters & sidewalks. | San Mateo Co. | Approved Concept Plan, 82-83 | \$ 473.0 |
| 7. Runnymede St. - Pulgas Ave. to East Palo Alto Levee (presently unimproved). | Construct standard county improved residential street w/ curbs, gutters & sidewalks. | San Mateo Co. | Approved Concept Plan, 82-83 | 239.9 |
| <u>D. Projects Identified by East Palo Alto Staff</u> | | | | |
| 1. Palo Alto Park Area. Improvements to street shoulder areas. | Eliminate mud conditions during rainy season; pathway for pedestrian use -- off-street travel-way. | None | Not in CIP | 567.1 |
| 2. Weeks Area (Poultry Colony). New streets to break up very large blocks. | Allow interior development of large parcels & improve circulation. | None | Not in CIP | 2,485.0 |
| <u>II. WATER SUPPLY</u> | | | | |
| <u>A. Five Year CIP Projects</u> | | | | |
| 1. Bay-Clarke to Pulgas. Upgrade existing water main from 6" to 12". | Line is deteriorated & would be removed for road improvements. New capacity for industrial area & Cooley Landing. | East Palo Alto Water District | Out for bids 1980-81 CIP | 80.0 |
| 2. Runnymede-Cooley to Pulgas. Replace 4" with 8". | Existing 4" is deteriorated & under capacity. | East Palo Alto Water District | 1981-82 CIP | 84.4 |
| 3. Beech-Clarke to Pulgas. Replace 4" line with 8" line. | Existing 4" line is deteriorated & under capacity. | East Palo Alto Water District | 1982-83 CIP | 36.0 |
| 4. Garden-Clarke to Pulgas. Replace 4" line with 8" line. | Existing 4" line is deteriorated & under capacity. | East Palo Alto Water District | 1982-83 CIP | 36.0 |
| 5. Willow Rd. Replace 8" line with 12" line. | Relocate to avoid conflict w/Dumbarton construction. | East Palo Alto Water District | Beyond 5 year '77 CIP | 32.0 |
| 6. Circle Drive Replace 2" with 6". | Eliminate problem with 2" line. | East Palo Alto Water District | Beyond 5 year '79 CIP | 16.2 |

Table III-2, Continued

| <u>Capital Improvement</u> | <u>Purpose</u> | <u>Present Agency Responsible</u> | <u>Status</u> | <u>Capital Cost</u> (000) (1979 dollars) |
|--|---|-----------------------------------|---|--|
| II. <u>WATER SUPPLY (A. 5 Year CIP, cont.)</u> | | | | |
| 7. Woodland-University to Cooley. Replace 4" with 8" or 10". | Replace defective main. | East Palo Alto Water District | Beyond 5 year CIP | \$ 48.8 |
| 8. East Bayshore-Menalto to Euclid. Lay 12" line. | Intertie between two sections of district for fire protec- tion. | East Palo Alto | Beyond 5 year CIP | 115.9 |
| B. <u>Not in CIP</u> | | | | |
| 1. Palo Alto Gardens & University Villages. Catalytic protection. | Install cathodic protection to prevent electrolysis of cast iron pipes. Should ex- tend life 30-50 years. | | Not currently programmed in CIP. | 500.0 |
| III. <u>SANITARY SEWERS - Projects in Current CIP (R-13)</u> | | | | |
| <u>Stage 2 Improvements</u> | | | | |
| 1. Replace sewer lines on Green St. & on Clarke Ave. | Prevent overflow at peak flow. | East Palo Alto Sanitary Dist. | Budgeted but held up by litigation. | 222.5 |
| <u>Stage 3 Improvements</u> | | | | |
| 1. Seal all pipe joints between the Levee & Cooley Ave. | Reduce infiltration inflow thereby reducing district flow volumes & reducing treatment costs. May elimi- nate need for new sewer line on O'Connor St. because of reduced flows. | East Palo Alto Sanitary Dist. | Budgeted but held up by litigation. | 142.4 |
| <u>Stage 4 Improvements</u> | | | | |
| 1. Replace sewer line on Pulgas between O'Connor & Bayshore Freeway. | Sewer line operates under pressure currently; however, can handle additional flows without overflowing. | East Palo Alto Sanitary Dist. | 1980 CIP | 142.4 |

Table III-2, Continued

| <u>Capital Improvement</u> | <u>Purpose</u> | <u>Present Agency Responsible</u> | <u>Status</u> | <u>Capital Cost</u> (000) (1979 dollars) |
|---|---|-----------------------------------|---------------|--|
| III. <u>SANITARY SEWERS (cont.)</u> | | | | |
| <u>Stage 5 Improvements</u> | | | | |
| 1. Replace Bay Rd. trunk sewer, between Cooley & Tara St. | Line is undersized (because of depth sewer flows under pressure & can handle flows for short time into future). | East Palo Alto Sanitary Dist. | 1983 CIP | \$ 364.9 |
| <u>Stage 6 Improvements</u> | | | | |
| 1. Replace lower portion of sewer line - O'Connor St. & Gardenia Way. | Line presently operates under pressure & could handle additional expected future flow without overflowing. Replacement will provide emergency extra capacity & prevent ex-filtration & groundwater contamination. | East Palo Alto Sanitary Dist. | 1985 CIP | 80.1 |
| <u>Stage 7 Improvements</u> | | | | |
| 1. Replace existing flow meter with magnetic flow meter. | Provide continuous & cumulative flow information to Palo Alto Treatment Plant; prevent overcharges due to faulty meter readings. | East Palo Alto Sanitary Dist. | 1989 CIP | 106.8 |
| IV. <u>STORM DRAINAGE/FLOOD CONTROL</u> <u>Projects in Current CIP</u> | | | | |
| <u>Priority 1 Projects</u> | | | | |
| | Priority 1 requires Unit 1 & Unit 2 programs to have the necessary pumping stations to dispose of storm waters. | | | |
| 1. Willow Road Outfall | | State | 1982-83 CIP | 1,363.6 |
| 2. O'Connor Pump Station | | County | 1982-83 CIP | 1,069.1 |

Table III-2, Continued

| <u>Capital Improvement</u> | <u>Purpose</u> | <u>Present Agency Responsible</u> | <u>Status</u> | <u>Capital Cost</u> (000) (1979 dollars) |
|------------------------------------|--|-----------------------------------|--|--|
| IV. <u>STORM DRAINAGE (cont.)</u> | | | | |
| <u>Priority 2 Projects</u> | Priority 2 improvements are intended to capture storm waters from west of Bayshore for conveyance to disposal. | | | |
| 1. Holland - East Bayshore | | County | 1982-83 CIP | \$ 120.0 |
| 2. O'Connor-Pulgas - East Bayshore | | County | 1982-83 CIP | 785.5 |
| 3. Willow Road Outfall | | State | 1982-83 CIP | 909.1 |
| <u>Priority 3 Projects</u> | Priority 3 consists of all remaining work to achieve objectives of original project in residential areas east of Bayshore. | | Not presently financed - in planning stage | |
| 1. Bay - Newbridge - Alberni | | County | | 290.9 |
| 2. Flood Park Estates | | County | | 93.6 |
| 3. Levee - Myrtle - O'Connor | | County | | 775.5 |

1. Cost data differs from source documents because it was adjusted to reflect costs in 1979 dollars. Estimates were updated using construction cost index multipliers.

Sources: J. Warren & Associates
McDonald & Associates, R-12, R-13

IV. MUNICIPAL REVENUE

A. Estimate of Revenue Potentially Available to East Palo Alto

An estimate must be made of the actual revenue that would be available to a City of East Palo Alto. Until now, revenue for municipal services has been drawn from local property taxes, user fees, and the county general fund. The exact amounts attributable directly to East Palo Alto cannot be precisely determined in every case.

Local government revenues derive from two principle sources: locally generated revenues, which are locally controlled, and state and federal shared revenues and grants, which are controlled by the state and federal governments and allocated on the basis of statutory formulae and discretionary grants. A distinction may also be drawn between revenues generated by charges occurring only once, such as building permit fees and connection charges, and revenues derived from continuing sources, such as property taxes, sales taxes, and service charges.

Some revenue available to local government is restricted to a particular purpose. Gasoline tax revenue (a state shared revenue), for example, must be used for construction and maintenance of roads; vehicle code fines must be used for traffic safety expenses. Some federal and state grants are also restricted.

Proposition 13 requires that any new special tax be subject to approval by two-thirds of the voters. Several revenue sources identified in this study would require such a vote. These include certain county taxes which the county could no longer levy within a new city.

The revenue sources available to East Palo Alto are summarized in Table IV-1. Table IV-1 also shows the amount of revenue currently available from each revenue source. The following paragraphs describe these revenue sources in detail.

1. Local Revenue Sources

a. Property Tax Revenue

The amount of property tax revenues accruing to a new city is a function of:

Table IV-1

SUMMARY OF POTENTIALLY AVAILABLE REVENUE

| TYPE OF REVENUE | BASIS OF COLLECTION OR ALLOCATION | RESTRICTIONS ON EXPENDITURE | EFFECT OF INCORPORATION ON EXISTING JURISDICTIONS (COUNTY, SPECIAL DISTRICTS, ETC.) | AMOUNT AVAILABLE DURING FIRST YEAR OF MUNICIPAL OPERATION 1980-81 (1979 dollars) | PERCENT OF TOTAL REVENUE AVAILABLE |
|---------------------------|--|--|---|--|------------------------------------|
| LOCAL REVENUE SOURCES | | | | | |
| Property Tax | 1% of real property market value, shared with county, school, & special districts | None | Loss of revenue | \$359,000 | 19.2% |
| Sales Tax | 1% of sales occurring in the city, collected and redistributed by the state. | None | Loss of revenue | \$172,200 | 9.2 |
| Business License Tax | Flat rate per business or graduated by number of employees, payroll receipts, etc. | None - Requires vote | Not currently charged by county | \$ 30,300 | 1.6% |
| Transient Occupancy Tax | Usually 5% of transient rental value | None - Requires vote | None. No motels in East Palo Alto | \$ -0- | -- |
| Utility Franchise Tax | Usually 5% of customer bills for natural gas, electricity, cable T.V., garbage service, etc. | None - Requires vote | Not currently charged by county | \$249,700 | 13.3% |
| Licences and Permits | Charges for construction inspection, building permits, bike or animal licences, etc. | None | Loss of revenue | \$ 40,000 | 2.1% |
| Fines and Penalties | Fines for vehicle code violations in city. | Restricted to traffic safety expenditures. | Loss of revenue (county would charge for court costs). | \$ 41,100 | 2.1% |
| Service Charges and Fees | Zoning changes, subdivision applications, user charges for recreation, garbage disposal, water and sewer service, etc. | None | Small loss of revenue. | \$225,000 | 12.0% |
| Use of Money and Property | Interest on savings, sale or rental of property, etc. | None | None | \$ 50,000 | 2.7 |
| Property Transfer Tax | \$1.10 per \$1000 of mortgage value, levied at time of sale by the county. Shared 50-50 with the city. | None - Requires vote | None | \$ 15,800 | 0.8% |

Table IV-1, Continued

| TYPE OF REVENUE | BASIS OF COLLECTION OR ALLOCATION | RESTRICTIONS ON EXPENDITURES | EFFECT OF INCORPORATION ON EXISTING JURISDICTIONS (COUNTY, SPECIAL DISTRICTS, ETC.) | AMOUNT AVAILABLE DURING FIRST YEAR OF MUNICIPAL OPERATION, 1980-81 (1979 dollars) | PERCENT OF TOTAL REVENUE AVAILABLE |
|-------------------------------|--|--------------------------------------|---|---|---|
| STATE REVENUES | | | | | |
| Cigarette Tax | 30% of \$0.10 per pack shared with county, allocated by population and local retail sales. | None | Revenue loss | \$ 43,100 | 2.3% |
| Alcoholic Beverage Tax | Number of active liquor licenses in city. | None | Revenue loss | \$ 4,400 | Less than 1% |
| Vehicle in-lieu Tax | 2% of vehicle market value. Allocated to cities by population. | None | None | } \$236,200 | } 12.5% |
| Trailer in-lieu Tax | 2% of trailer market value shared with county and schools. Allocated by location. | None | Revenue loss | | |
| Gas Tax | Allocation to cities by population. Also basic grants. | Restricted to streets and roads. | Revenue loss | \$158,500 | 8.5% |
| Homeowner's Tax Relief | State subvention of revenues lost due to \$1,750 assessed value property tax exemption. | None | Revenue loss | Included in property tax estimate. | |
| Business Inventory Tax Relief | State subvention of revenues lost due to 50% assessed value inventory exemption. | None | Revenue loss | Included in property tax estimate. | |
| FEDERAL REVENUES | | | | | |
| General Revenue Sharing | Allocated to local jurisdictions by population, income and tax effort. | None | Revenue loss | \$233,000 | 12.4% |
| Specific Grants | Includes grants from CETA, HUD, and other Federal programs. | Funds restricted to funded projects. | None | \$300,000+ | Not included in total revenue available |

- The market value of real and personal property within the jurisdiction;
- The limitations imposed by Proposition 13;
- A determination by LAFCO as to the property tax revenue base that will be transferred to a new city.

Each of these factors is discussed in the following paragraphs.

For years property values in East Palo Alto have been limited by the lending policies of local financial institutions. Much of the community was effectively "red lined," which reduced the availability of mortgages and thus placed an artificial ceiling on the price of housing. In the early seventies, while home prices in surrounding communities were appreciating at a rate well in excess of the average national inflation rate, home prices in East Palo Alto remained relatively stable. This situation changed dramatically when red-lining ceased at the beginning of 1977. Some home values literally doubled when financing became available, and sales rates showed marked increases. In addition to financing, the high level of rehabilitation activity in East Palo Alto and the extremely high demand for housing in San Mateo County also contributed to the dramatic appreciation. Approximately 300 homes were sold in 1978, and this sales trend is expected to continue over the next five to ten years. The rate of appreciation of fair market value cannot be predicted with certainty. For purposes of analysis, the market value of the housing stock in East Palo Alto is assumed to increase at the rate of 12% per year over the five-year projection period.

Major new commercial or residential development in East Palo Alto would add to the property tax revenue base of a new city, but the review of economic and demographic trends in the area did not justify an assumption that significant additional development would take place. One exception to this general assumption was that an additional eighty-thousand square feet of retail sales area produced through rehabilitation of the existing shopping center at the corner of University Avenue and Bay Road could occur by 1982. In addition to an estimated \$50,000 increase in retail sales tax revenues, this rehabilitation would produce approximately \$4,700 in property tax revenues to a city. This property tax increment is not included in the analysis nor in the estimates that follow.

Increases in market value do not translate directly into increases in taxable assessed value. In addition to limiting total property tax revenues (to all jurisdictions, including the county, cities, school districts, and special districts) to 1% of fair market value or 4% of assessed value, Proposition 13

introduced an entirely new concept: taxable assessed value. A base point of March 1 (the property assessment date) in 1975 was established, and taxable assessed value was defined (with certain exceptions) as one-fourth of the fair market value on that date. Increases after that date were limited to 2% per year compounded, until the date when a change in ownership took place. The taxable assessed value would then increase to one-fourth of the then-actual fair market value, and further increases would be limited to 2% per year until a change in ownership again took place. Thus, taxable assessed value can be no more than one-fourth of the actual fair market value and successively declines from this value each year until a subsequent change in ownership occurs. Further, any improvements made by an owners are not normally reflected in taxable assessed value until a change in ownership occurs.

Table IV-2 illustrates this effect, based on two assumptions: continuing inflation in true market values at the rate of 12% per year and an average time between changes in ownership of seven years. These values are assumed to be applicable (at least for the five year future) for the East Palo Alto area, but an additional consideration was necessary.

A factor unique to East Palo Alto was considered before the estimate of property tax revenues could be completed. As discussed above, the elimination of red-lining created an almost instantaneous increase in market values between the assessment dates of 1976 and 1977. This effect would greatly inflate the difference between actual market value and taxable assessed value, since a property that, for example, doubled in value would not have this increase reflected on the tax rolls until a change in ownership took place. As a test, a special algorithm was developed on the assumption that all taxable property had doubled in value between 1976 and 1977; then estimating factors comparable to those in Table IV-2 were calculated and calibrated to fit actual increases in taxable assessed value since 1975.

The third consideration affecting property tax revenues to a new city reflects the fact that, with a statutory limit on the composite tax rate of 4% of assessed value, tax revenues for a new jurisdiction can be achieved only by reducing the tax revenues for an existing jurisdiction. The 1979 public finance legislation that replaced the one-year legislation for 1978-79 (R-8) provided that the Local Agency Formation Commission would make a determination of the portion of the total property tax revenues that would be reassigned. LAFCO would

...determine, based on information submitted by each affected local agency, an amount equal to the total cost to each affected local agency during the prior fiscal year of providing those services which the new jurisdiction will assume within the area subject to the (incorporation) proposal. (Emphasis added.)

Table IV-2
INCREASE FACTORS FOR ACTUAL MARKET VALUE
AND TAXABLE ASSESSED VALUE

| <u>Number of Years From Base Year</u> | <u>Increase in Actual Market Value</u> | <u>Permitted Increase in Taxable Assessed Value</u> |
|---|--|---|
| 1 | 1.120 | 1.039 |
| 2 | 1.254 | 1.078 |
| 3 | 1.405 | 1.139 |
| 4 | 1.574 | 1.219 |
| 5 | 1.762 | 1.308 |
| 6 | 1.974 | 1.406 |
| 7 | 2.211 | 1.538 |
| 8 | 2.476 | 1.676 |
| 9 | 2.773 | 1.842 |
| 10 | 3.106 | 2.037 |
| 11 | 3.479 | 2.254 |
| 12 | 3.896 | 2.494 |
| 13 | 4.363 | 2.770 |
| 14 | 4.887 | 3.083 |
| 15 | 5.474 | 3.438 |
| 16 | 6.130 | 3.837 |
| 17 | 6.866 | 4.283 |
| 18 | 7.690 | 4.781 |
| 19 | 8.613 | 5.345 |
| 20 | 9.646 | 5.970 |
| 21 | 10.804 | 6.682 |
| 22 | 12.100 | 7.477 |
| 23 | 13.552 | 8.360 |
| 24 | 15.179 | 9.361 |
| 25 | 17.000 | 10.488 |

-
- Notes: 1. Assumed rate of inflation of market value is 12% per year.
2. Assumed average turnover rate for a homogenous group of properties is once every seven years.

Source: McDonald & Associates

In other words, the property tax revenue base for a new city depends on a LAFCO determination (presumably guided closely by local input) of the cost savings to jurisdictions that now provide the service.

For purposes of analysis, estimates were made that correspond to the determination which in actuality would be made by LAFCO. These estimates are shown in Table IV-3. They represent an estimate by McDonald & Associates and are neither commitments by LAFCO nor necessarily equal to the estimates that, in actuality, would be "...submitted by each affected local agency..."

The data in Table IV-3 reflect the property tax revenue available to the City of East Palo Alto, should it only provide the minimum legally required services. This is the basis of one of the incorporation alternatives discussed below. Major services which could be provided by a city but which were not included for the basic revenue projection are:

- Parks and recreation;
- Fire protection;
- Water supply and waste treatment;
- Street lighting;
- Garbage disposal;
- Library.

This assumption is necessary for the revenue calculation, but it does not imply a commitment or recommendation for a particular configuration of municipal services. It is simply an expression of the minimum amount of property tax revenue that would be available. Any comparison of costs and revenues should include only the costs of services shown in Table IV-3. If the new city provided services now provided by special districts that receive property tax revenue, the city's property tax revenue would increase proportionately to the revenue lost by the districts.

Table IV-3 contains an additional assumption. The estimated shift of costs from other jurisdictions to a new city -- the key estimate on which depends the property tax revenue entitlement to be assumed by the new city -- considers only shifted costs that are funded from general fund revenues. A literal reading of the statute (R-8) indicates that the calculation should be based on "...the total cost...of providing those services which the new jurisdiction will assume..." and such costs would include street and road related costs that are conventionally funded from

Table IV-3
PROPERTY TAX BASE FOR THE CITY OF EAST PALO ALTO
(Legally Required Services Only)

| <u>Existing Agency and Service</u> | <u>1979-80 Property Tax Revenue</u> | <u>1979-80 Total General Fund Revenue</u> | <u>1979-80 Separable Cost for "City" Services¹</u> | <u>1979-80 Property Tax Revenue Base Allocated to City²</u> |
|---|---|---|---|--|
| San Mateo County (General Fund Only) | \$40,049,656 | \$157,396,740 | | |
| Animal Control | | | \$ 5,000 | \$ 1,300 |
| Civil Defense | | | 3,500 | 900 |
| East Palo Alto Municipal Council | | | 173,900 | 44,200 |
| Planning and Building Inspection | | | 20,200 | 5,100 |
| Sheriff (Includes total costs associated with CSA 5 plus base level service) | | | 1,201,400 | 305,700 |
| TOTAL | \$40,049,656 | \$157,396,740 | \$1,404,000 | \$357,200 |

¹ Includes only costs of services financed from the county's general fund. See text.

² This allocation represents a direct reduction of the county's property tax revenue base that would be allocated to East Palo Alto. Calculation is based on the requirements of AB 8, where that portion of municipal service supported by property taxes is set as the basis of the city's share of property tax revenue.

the city's share of the state tax on gasoline. Such an interpretation would thwart the basic purpose of the calculation -- to allocate property tax which is a general fund revenue. It is the opinion of the consulting team that, if a literal reading of the statute is required legally, then the statute will be amended in the future to reflect more fully the intent of the entire procedure.

The final result shown in Table IV-3 is that East Palo Alto would have a base year property tax revenue entitlement of \$357,200. This base year estimate permanently fixes the base entitlement of the new city and permanently defines the proportion of increases in taxable assessed value that will accrue to the city, compared to other jurisdictions in the city's tax rate areas. The future property tax revenues, beginning with this base, are presented in Section B of this chapter.

b. Sales Tax Revenue

The sales tax is levied against the gross receipts on sales of most tangible property other than property sold for resale. Exempt items include food for home consumption, prescription medicine, newspapers and periodicals, and animals used for human consumption. All cities and counties in California are required by state law to levy a 1% tax on sales of these items. Of the monies collected by this levy, 99% are returned to the local jurisdictions quarterly, with the balance retained by the state to cover administrative costs. The amount returned is calculated exclusively on the basis of the situs of retail sales. In San Mateo County, the existing cities in turn remit 5% of their share of these sales tax revenues to the county. There is no restriction on the use of local sales taxes.

Since sales tax revenues are allocated according to the actual location of sales rather than on the basis of population, vastly different levels of per capita sales tax revenues exist between communities. A city will experience a loss of sales tax revenue when residents shop in other areas. East Palo Alto has a very low per capita sales tax revenue compared with surrounding communities. This is primarily because of the limited commercial activity in East Palo Alto. Table IV-4 shows potential per capita sales tax revenue in East Palo Alto compared to surrounding cities.

Sales tax is a significant portion of municipal revenue for California cities. East Palo Alto could greatly expand this revenue source by encouraging local commercial development and by encouraging residents to shop within the community.

TABLE IV-4
COMPARISON OF SALES TAX REVENUE

| City | Population 1978 | Total Sales Tax Revenue | Total Sales Tax Revenue Per Capita |
|----------------|--------------------|----------------------------|--|
| Menlo Park | 27,400 | \$1,320,108 | \$48.18 |
| Palo Alto | 61,850 | \$3,980,054 | \$64.35 |
| Redwood City | 55,800 | \$2,809,303 | \$50.35 |
| East Palo Alto | 18,000 | \$ 150,000 | \$ 8.33 |

Sources: State Controller (R-21)
State Board of Equalization (R-16)
McDonald & Associates

c. Business License Tax

Cities in California may levy a business license tax on businesses within their jurisdiction. The tax is imposed for the privilege of doing business within the city. The tax may be a flat rate per business or may be graduated by the number of employees, payroll receipts, etc. All forms of business are subject to the business license tax, including street salesmen and temporary sales outlets. The tax also applies to firms from other areas doing business in town, such as building contractors and subcontractors and delivery services.

Business license taxes are currently not levied in East Palo Alto, but the surrounding cities levy this tax. If East Palo Alto were to levy a tax on a sliding scale similar to Menlo Park, approximately \$23,500 would be available. These revenues may be used for any municipal purpose.

d. Transient Occupancy Tax

Cities and counties in California may levy a transient occupancy tax, most commonly at a rate of 4% of total rental value for hotel, motel or other rooms. The tax does not apply if the period of occupancy is longer than thirty days.

The county currently levies this tax. However, currently there are no hotels or motels in East Palo Alto, so no revenue is expected from this source.

e. Utility Franchise Tax

A city may levy a tax on private utility services such as gas, electricity, garbage disposal, telephone, and, in some instances, cable television. The tax is normally levied as a percentage of the bill. Most city rates are about 5%.

Utility taxes are not presently applied in East Palo Alto. Like all special taxes, the utility tax would require approval of two-thirds of the voters. Utility tax revenues may be used for any municipal purpose. Table IV-5 shows the basic method for calculating this tax and also shows the potential revenue available.

f. Licenses and Permits

Cities typically engage in regulatory activity in the interest of public health and safety. These regulations may include building codes, animal control, and bicycle safety. Licenses

Table IV-5

POTENTIAL UTILITY TAX REVENUES IN EAST PALO ALTO

Gas and Electricity

Total households in East Palo Alto = 6,500 =

Estimated annual energy consumption
per household:

- Electricity = 9,600 kilowatt hours (KWH)
- Natural gas = 500 therms¹

Estimated annual energy charge
per household:

- Electricity @ \$0.0379/KWH² = \$364
- Natural gas @ \$0.25/therm² = 125
Total per household = \$614

Estimated total annual energy charge
in East Palo Alto

\$614 x 6,500 households = \$3,991,000

Utility tax @ 5% = \$ 199,550

Garbage Disposal

Estimated total cost of garbage col-
lection, including residential, com-
mercial, and industrial service = \$392,000

Franchise fee @ 2.5% = \$ 9,800

TOTAL UTILITY TAX & FRANCHISE FEE = \$209,300

¹ A therm is equivalent to 100,000 British Thermal Units.

² Current rates in San Mateo County.

Sources: Browning-Ferris Industries
Pacific Gas and Electric Company
McDonald & Associates

and permit fees are levied to offset the cost of this regulation. Licenses and permits for local regulatory functions in East Palo Alto are currently collected primarily by the County of San Mateo. Table IV-6 summarizes the license and permit revenue collected in East Palo Alto during fiscal year 1978-79.

Licenses and permits are generally intended to cover the entire cost of the regulatory activity. The current permit fees charged by the county building department cover the costs of that service. The animal control function requires general fund support, in addition to the fees levied. In March 1979, the East Palo Alto Municipal Council began administering a design review program for all new construction and rehabilitation. The cost of this program will be covered by permit fees.

Future use of licenses and permits in East Palo Alto can be assumed to cover the cost of regulatory activities. Use of "special permit fees" to cover costs in addition to administrative costs, such as a share of capital investments required for public services, may be subject to the revenue restriction of Proposition 13 and require a two-thirds voter approval.

g. Vehicle Code Fines and Forfeitures

Fines and forfeitures imposed by law enforcement personnel on those who violate the State Vehicle Code provide a source of revenue. This revenue is shared among city, county, and state governments. Fines collected within a city are shared with the county to cover court costs.

Revenues from vehicle code fines are restricted to use for traffic safety purposes. This revenue presently is collected by the county. Assuming East Palo Alto has similar fines per capita as neighboring Menlo Park, and assuming the county would withhold 30% of the revenue for court costs, fines and forfeitures would yield East Palo Alto approximately \$41,000 per year.

h. Service Charges

Cities and special districts often charge for commodities or services. Charges are applied when a specific user can be identified and other revenue sources are not adequate or appropriate. Charges in East Palo Alto are currently used by four special districts and include charges for garbage collection, water, sewage disposal and some recreation services. Table IV-7 summarizes the service charges and fees collected in East Palo Alto during fiscal year 1978-79.

TABLE IV-6

LICENSE AND PERMIT FEES COLLECTED IN EAST PALO ALTO
1978-1979

| | |
|---|-----------------|
| ● San Mateo County Building Department | \$31,400 |
| ● San Mateo County Tax Collector (Animal Licenses) | <u>\$ 4,400</u> |
| | <u>\$35,800</u> |
| | TOTAL |

Source: McDonald & Associates

Table IV-7

SERVICE CHARGES AND FEES CURRENTLY BEING COLLECTED
IN EAST PALO ALTO (1978-1979)

| <u>District</u> | <u>Dollar Amount of Charge or fee</u> |
|---|---|
| ● County Service Area #5 (residential garbage service) | \$160,466 |
| ● East Palo Alto Sanitary Service District | 158,728 |
| ● Ravenswood Recreation and Park District | 3,000 |
| ● East Palo Alto Water Works | <u>599,500</u> |
| TOTAL | \$921,694 |

Source: San Mateo County (R-17)

Service charges are based on the benefits principle. Under this principle, each household or business in the jurisdiction pays fees or charges equal or nearly equal to the cost of providing the services. Revenues generated from fees and service charges may be expanded for any municipal purpose, but are sometimes less than or equal to the actual cost of providing a particular service.

The future use of service charges to pay for public services is secure because service charges are exempt from the revenue limitations of Proposition 13. If charges exceed actual costs, however, they are very probably subject to the requirement that two-thirds of the voters give their approval.

i. Use of Money and Property

Revenue from use of money and property results from interest on idle funds invested in savings accounts, bonds, or other investments and from rental, lease, or sale of city property. There are no restrictions on this revenue. Use of money and property typically accounts for approximately 3% of municipal revenue in California

j. Property Transfer Tax

The County of San Mateo levies a tax on the transfer of real property equaling \$1.10 per \$1000 of the sale price value. Revenues from sales of property occurring within a given city are shared with the city, which receives fifty percent.

2. State Shared Revenue Sources

Several of the state shared revenues are allocated on the basis of population and other local criteria. For population count in incorporated areas, the state uses the most recent census. For unincorporated areas, the population is estimated by multiplying the number of registered voters by three. In East Palo Alto there are currently 4,805 registered voters which multiplied by three yields a population estimate of 14,415. This number is 80% of the 1970 census population of 17,837, and there is no basis for assuming that the population has declined since the 1970 census. Thus, East Palo Alto would not receive its full entitlement of state shared revenue until the 1980 census becomes available. The solution to this problem is a special census conducted for the area that will be incorporated. For purposes of the revenue calculations, it was assumed that the state recognizes the actual population of East Palo Alto, either because a special census is conducted or because incorporation does not actually take place until (approximately) 1982.

a. Cigarette Tax

The State of California collects an excise tax on cigarettes of \$0.10 per package levied through wholesale distributors. Three cents of this \$0.10 is allocated to local governments. This local government share is divided between city and county governments on the basis of sales tax revenues from city and county jurisdictions in the previous year. Of the portion earmarked for cities, the amount remitted to each city is determined by a formula which takes into account both sales tax revenues and population.

Cigarette tax revenue may be used for any municipal purpose. East Palo Alto's revenue from this source is limited by the low per capita sales tax and low population estimate. The revenue that would be available to a City of East Palo Alto is estimated at \$45,000 if the actual population is recognized.

b. Alcoholic Beverages

The State of California collects an excise tax on alcoholic beverages, as well as license fees for sale and production, and interest and penalties on these levies. Ninety percent of the sales license fees is allocated to cities and counties. This revenue may be used for any municipal expenditure. The County of San Mateo would lose some of this revenue, and East Palo Alto's share is estimated at \$3,700.

c. Motor Vehicle License Fees and Trailer Coach Fees

Each year when a motor vehicle is registered, the State Department of Motor Vehicles collects a fee based on 2% of the market value of the vehicle, including trailers and mobile homes. This fee is in lieu of the personal property tax, and all fee revenues are deposited in the motor vehicle license fee fund. The Department of Motor Vehicles deducts its operating costs from this fund and distributes the balance (except the trailer coach fees) equally among cities and counties in California on the basis of population. The trailer coach fees (less administrative costs) are returned to the counties where coaches are registered and divided among the county, the cities and the school districts. For trailers registered in a City of East Palo Alto, one-third of the fees would be returned to the city, one-third to the county, and one-third to the local school district.

Motor vehicle license fees and trailer coach fees may be used for any purpose. San Mateo County would lose the portion of this revenue allotted to East Palo Alto. The State Board of Equalization estimates that motor vehicle license and trailer coach fees now average \$13.24 per person in California cities. This would mean \$236,200 available to East Palo Alto from this source.

d. Highway Users Tax Revenues (Gas Tax)

Both excise and sales taxes are imposed on gasoline. The local retail sales tax on gasoline is combined with the other retail sales taxes that are returned to the local jurisdiction. The excise tax is partially returned to the local jurisdiction on the basis of motor vehicle registration, assessed valuation, population, and maintained road mileage. The state and federal governments also utilize gas tax funds for highway construction and maintenance. Federal excise tax is \$0.04 per gallon; state excise tax is \$0.07 and is divided among the state, the counties and the cities. The city share of the gas tax is defined by two Highway Code sections, Section 2107 and Section 2106. Revenues from Section 2107 are calculated at an equivalent of \$4.48 per person. Section 2106 revenues are calculated at an equivalent of \$5.158 per person. Table IV-8 shows revenue currently available from highway user taxes. Expenditure of gas tax revenue is restricted to road construction and maintenance.

Because the gas tax is based on a state levied, fixed tax on gasoline, it continually diminishes in relation to price inflation. Unless the present \$0.07 per gallon state excise tax is raised by state law, gas tax revenues will continue to decline.

TABLE IV-8

GAS TAX REVENUES AVAILABLE TO EAST PALO ALTO

| Revenue Source | Revenue Amount |
|--|------------------|
| ● Gas Tax Revenue, Steets and Highways Code Section 2107 and Section 2107.5 | \$ 79,900 |
| ● Collier-Unruh Gas Tax Funds, Streets and Highway Code Section 2106 | <u>\$ 92,000</u> |
| TOTAL | <u>\$171,900</u> |

Source: State Board of Equalization (R-8)

e. Property Tax Relief

The State of California grants home owners an annual property tax exemption of \$1,750 on the assessed value of their homes. The state also provides an annual tax exemption for business inventory property, equal to 50% of the assessed value of business inventory. The state returns all the lost tax revenue to the local taxing authorities.

Table IV-9 shows the revenues available to East Palo Alto from this source in 1978-79. Similar to other property tax revenue, tax relief funds may be used for any municipal purpose. These funds are currently allocated to the county and special purpose districts providing services to East Palo Alto. The estimate of East Palo Alto's property tax revenue base given in Table IV-3 includes the portion that actually is paid by the state since the base year allocation is inclusive of the homeowners and business inventory subventions.

TABLE IV-9

REVENUE AVAILABLE TO EAST PALO ALTO
FROM PROPERTY TAX RELIEF FUNDS

| Program | Assessed Value of Exemption Property | State Subvention of Lost Revenue |
|--------------------------------------|---|-------------------------------------|
| • Home Owners Property Tax Relief | \$3,910,270 | \$39,103 |
| • Business Inventory Tax Relief | \$ 213,513 | <u>\$ 2,135</u> |
| | | TOTAL \$41,238 |

Source: San Mateo County Assessor

3. Federal Shared Revenue and Grants

a. General Revenue Sharing

A City of East Palo Alto would become eligible for its own entitlement to the federal general revenue sharing program. This program provides a share of federal revenues to state, county and municipal governments that is generally unrestricted as to use. The long-term future for the program is uncertain (there

was discussion in the present session of Congress about eliminating the states' participation in general revenue sharing, for example), but for the mid-term future, continuity of the program can be assumed.

The entitlement of a new city comes largely from reduction of the total entitlement of other cities in the same county. There would be a slight transfer from the county's share to the share allocated to the cities in the county, since tax effort or the amount of all taxes levied locally is a factor in the formula that determines the distribution between the county and the cities, and presumably San Mateo County's tax effort would be reduced to reflect the cost of services transferred to a new city. This reduction is slight compared to the county's overall tax effort.

The city's share of general revenue sharing is allocated in proportion to a weighting function reflecting population, tax effort, and relative per capita money income (with the function favoring low per capita income cities). There is a maximum and minimum per capita amount established each year.

The per capita revenue sharing grant to cities in San Mateo County for fiscal year 1979-80 included six affluent cities that were set at the statutory minimum, one city at the statutory maximum, and the others varying significantly. The average was \$7.42 per capita.

It was estimated that a City of East Palo Alto would receive approximately \$12.50 per capita -- a figure that is above the county average but below that of the cities of Colma, Brisbane, and Pacifica. East Palo Alto fares well in the allocation formula because of its low per capita income, but the other cities receive a larger per capita entitlement because their (relatively) lower per capita income is accompanied by a higher tax effort. The present estimate of general revenue sharing funds is \$233,000. This amount would tend to increase with inflation and the increased tax effort in East Palo Alto.

b. Housing and Community Development

The federal Housing and Community Development Act of 1974 (HCDA) provided a revenue sharing program in addition to general revenue sharing described above. The HCDA was a consolidation of seven categorical grant programs providing revenue on an annual basis to local jurisdictions. The County of San Mateo initiated its housing and community development program in 1975 to administer grant funds for the county. Prior to March 1978, the program operated under Title I of the Housing and Community Development Act of 1974. Since then, the county has operated under

Title I of the Housing and Community Development Act of 1977 which requires the county to act as fiscal intermediary and establish policies for participating citities.

The county currently administers a number of housing and community development projects and activities in East Palo Alto. The total cost of these projects for the 1979-80 fiscal year is \$600,000. Table IV-10 shows HCDA funds committed to East Palo Alto projects through 1982. These projects include improvements to municipal facilities, housing rehabilitation, a senior citizen center, and other economic development projects.

Prior to 1978, HCDA funds allocated to East Palo Alto included administrative funds, because county redevelopment agency staff were located in East Palo Alto. As of the 1977-78 fiscal year, the county housing and community development program began to administer most HCDA projects from a single administrative office. The administrative overhead was initially charged to East Palo Alto and is presently assumed by the county program.

Under the existing HCDA program, incorporation could have little effect on the current HCDA funded programs in East Palo Alto. The county could continue administering projects in East Palo Alto. Alternatively, East Palo Alto could withdraw from the county program and apply for metropolitan discretionary funds within this region. An analysis prepared by the regional Housing and Urban Development office, based on East Palo Alto's demographic characteristics, indicated that East Palo Alto would be eligible for approximately \$400,000 annually, if it were an entitlement agency. HCDA legislation pending in Congress may permit a city of East Palo Alto to compete nationally for urban development action grants to fund local redevelopment projects.

B. Projection of Potential Revenue

1. Factors Affecting Future Revenue

The amount of municipal revenue available to East Palo Alto in the future depends upon changes in key revenue variables and the restrictions imposed by Proposition 13 and its implementing legislation. The key revenue variables are:

- Value of real and personal property within East Palo Alto;
- Taxable sales;

Table IV-10

SUMMARY OF HCDA FUND ALLOCATIONS TO EAST PALO ALTO^(a)

| <u>Allocation</u> | <u>1975-1976</u> | <u>1976-1977</u> | <u>1977-1978</u> | <u>1978-1979</u> | <u>1979-1980</u> | <u>1980-1981</u> | <u>1981-1982</u> |
|---|------------------------|------------------------|------------------------|------------------|------------------|------------------------|------------------------|
| County Allocation | \$2,772,000 | \$2,961,226 | \$2,855,000 | \$3,000,000 | \$3,504,000 | \$3,723,000 | \$3,723,000 |
| East Palo Alto Allocation -- | | | | | | | |
| Total, All Programs | 895,641 ^(b) | 896,000 ^(b) | 759,916 ^(b) | 600,000 | 435,000 | 300,000 ^(c) | 358,000 ^(c) |
| East Palo Alto's Percent of County Total | 32.3% | 30.2% | 26.6% | 20.0% | 12.4% | 8.0% | 9.6% |

Notes: (a) Does not include HUD 312, CHFA, or other federal grants.

(b) Does not include budgets for administrative costs which were allocated with HCDA funds to East Palo Alto through fiscal year 1977-1978 but which, as of fiscal year 1978-79, are assumed by county. Administrative budgets were:

1975-1976 - \$345,359 (total actual allocation = \$1,241,000)
 1976-1977 - \$345,000 (total actual allocation = \$1,241,000)
 1977-1978 - \$371,082 (total actual allocation = \$1,131,000).

(c) County HCDA staff recommendations for East Palo Alto.

Source: East Palo Alto Municipal Council

- Total population;
- Local support for new bonds or special taxes;
- Rates of inflation that differ from the "average" inflation rate for the county;
- Federal and state funding.

The projection of potential revenue is based on the following assumptions concerning these variables.

a. Property Tax Revenues

The estimated property tax revenues for a City of East Palo Alto are shown in Table IV-11. The estimates of taxable assessed value are based on the factors discussed previously and summarized in Table IV-2, and the base year estimate of revenues and the allocation thereafter are based on the analysis summarized in Table IV-3.

A highly significant conclusion from Table IV-11 is that, in terms of real dollar purchasing power, the property tax revenues will increase only slightly more than 5% in five years for the new city. As exemplified previously in Table IV-2, the basic workings of Proposition 13 and its implementing legislation are such that taxable assessed value can, in most circumstances, barely keep up with the effects of price inflation. Thus, with a fixed tax rate, property tax revenues will not increase significantly in terms of real purchasing power, even when property values increase faster than the consumer price index.

b. Taxable Sales

Current taxable sales in East Palo Alto are extremely low on a per capita basis (Table IV-4). This is primarily because of the very limited amount of commercial development presently in East Palo Alto. A recent marketing study prepared for Sequoia Union High School District concluded:

Historically, retail trade in East Palo Alto has been affected by two major factors. 1) Retailers within East Palo Alto have not provided the variety and quality of merchandise sought by the resident population. As a result, many of the community's retail dollars have been spent outside the area. 2) Due to physical and psychological barriers there has been no inflow of retail

Table IV-11

PROPERTY TAX REVENUES OF A NEW CITY

| | Actual 1979-80 | Estimated | | | | |
|--|-------------------|----------------|----------------|----------------|----------------|----------------|
| | | <u>1980-81</u> | <u>1981-82</u> | <u>1982-83</u> | <u>1983-84</u> | <u>1984-85</u> |
| Taxable Assessed Value | \$39,535 | \$43,735 | \$48,507 | \$53,911 | \$60,017 | \$66,901 |
| Total General Property Taxes Generated | 1,581 | 1,747 | 1,940 | 2,156 | 2,401 | 2,676 |
| Property Taxes Available to New City | 357 | 395 | 439 | 487 | 542 | 605 |
| City Property Taxes Expressed in 1979 Dollars | 357 | 359 | 363 | 366 | 371 | 376 |

Notes: 1. All figures are in thousands of dollars.

2. All figures are in then-current-year dollars, unless noted. The figures expressed in 1979 dollars are based on an assumed inflation rate of 10% per year.

3. The data on Table IV-11 reflect the property tax available to the Alternative A city discussed in Chapter V. The Alternative B city would have a larger property tax revenue because of the additional services provided.

Source: McDonald & Associates

customers to shopping facilities within East Palo Alto. Because of these two trends, any new shopping center in East Palo Alto would have to compete with alternative shopping facilities outside the community, but could only expect to draw patronage from within the community..."

The retail shopping facilities in the market area are highly fragmented. For the most part, the shops are small freestanding locations with limited merchandise lines. There are three neighborhood shopping concentrations of significant size in the area. Included are the University Avenue shopping district between O'Connor and Woodland Avenue; the Edgewood Shopping Center at West Bayshore and Embarcadero Road; and the Nairobi Shopping Center at University Avenue and Bay Road..." (R-9)

The Nairobi Shopping Center, the major neighborhood shopping center in East Palo Alto, is currently vacant and in gross disrepair from vandalism. Many other commercial buildings in East Palo Alto are also vacant or under-utilized.

A major increase in use of this existing commercial space would greatly enhance local sales tax revenue. For example, if the Nairobi Center was redeveloped and primarily leased to retail commercial tenants, an additional \$50,000 of sales tax revenue could be expected.

For purposes of this analysis, it was rather optimistically assumed that the community would, over the next five years, be able to capture a greater share of retail expenditures of local residents. This estimated increase in local retail sales is further assumed to generate \$100,000 in annual municipal revenue above current levels by 1984, including the revenue from the Nairobi shopping center.

Expanded commercial development would also contribute additional property taxes to East Palo Alto. If \$2,000,000 were invested in new commercial space, East Palo Alto would receive an additional \$4,700 in property taxes.

c. Total Population

The population of East Palo Alto measured by the 1970 U.S. Census was 17,837. Since 1970, the community has experienced little growth and the population has probably remained stable. The primary reason for lack of growth is the limited buildable land: most of East Palo Alto is developed. Also, smaller average household size has made less efficient use of existing housing units.

The area west of Bayshore, census tract 6121, has experienced growth because of the increase in multiple dwelling units. Re-development efforts east of Bayshore have focused primarily on rehabilitation of existing units and have not added enough new units to offset the population decline due to smaller average household size.

Present trends are likely to continue. East Palo Alto should not expect substantial population growth over the next ten years. A change in this trend would require a major shift in residential density toward multi-family units.

The 1980 federal census will hopefully provide more information on population trends. For purposes of this analysis, no increase in East Palo Alto's population is assumed over the next five years.

d. Local Support for New Bonds or Special Taxes

Proposition 13 requires that any new tax proposed by a local government must be approved by two-thirds of the voters. This requirement greatly limits the ability of local government to levy new taxes. A number of the potential local revenue sources identified in Table IV-1 would require this voter approval. This may include taxes which are presently being levied by the County that would no longer be levied within a new city

There is currently a dispute over the precise difference between a fee and a tax. Fees are specifically exempt from Proposition 13. A recent opinion by the State Attorney General clouds the issue. The Attorney General was asked to determine if development fees were taxes. The Attorney General concluded that development fees may be special taxes: "Due to the revenue raising design of the statutory scheme in question, we conclude that the ...fees may be characterized as excise taxes (charges of burdens exacted for the privilege of doing a particular activity placed upon persons which wish to have building permits approved for residential development)..."

Although this opinion has yet to be confirmed by a court ruling, it appears that new fees imposed by local government which are in the form of a tax, or change the rate or method of computing existing taxes, designed to increase revenue, may require two-thirds voter approval.

Approximately 15% of the revenues available to East Palo Alto would require two-thirds voter approval. These include the special taxes for business licenses, transient occupancy, and utility franchises.

e. Rate of Inflation

Some revenues are based on commodities that can be expected to inflate at a rate faster than general inflation. For example if the city passed a utility franchise tax, it would most likely be based on local sales of utilities, primarily gas and electricity. These commodities are expected to inflate more rapidly than other goods and services. A real increase in revenue from this source, should it become a municipal tax, could be expected.

2. Five Year Projection

The year-by year analysis which begins with fiscal year 1980-81 is illustrative rather than an exact simulation of timing. An actual incorporation would, if possible, be timed to start on July 1st of the year after the incorporation election. The County is legally bound to continue to provide services for "...the remainder of the fiscal year" while the revenues accrue to the new city. An initial surplus accumulates and is available to fund the new city's start-up costs and first year operations. Legal requirements are such that incorporation could not possibly take place before July 1st, 1980. Nonetheless, 1980-81 is an appropriate starting point since the purpose of the analysis is to compare revenues and costs, rather than to evaluate details of the actual incorporation strategy.

The five year projection of revenue is given in Table IV-12. It is important to note that these figures are expressed in 1979 dollars. Also, three revenue subtotals are given, one for general revenues, one for restricted revenues, and one for revenues requiring voter approval. These data indicate a relatively constant stream of revenue available to East Palo Alto over the next five years.

Because this projection is based on the City of East Palo Alto providing only the legally required services, no user fees for enterprise public services for water, sewer or other service charges or assessments are included in the revenue projection, except for garbage service.

Table IV-12

FIVE YEAR PROJECTION OF REVENUE

EAST PALO ALTO INCORPORATION ALTERNATIVE A

| Revenue Sources | Projected Revenue Available (thousands of 1979 dollars) | | | | |
|--|--|----------|----------|----------|----------|
| | 1980-81 | 1981-82 | 1982-83 | 1983-84 | 1984-85 |
| <u>Local Revenue Sources</u> | | | | | |
| Property tax ⁽¹⁾ | \$ 359.0 | \$ 363.0 | \$ 366.0 | \$ 371.0 | \$ 376.0 |
| Sales tax | 172.2 | 192.8 | 216.0 | 298.9 | 334.7 |
| Business license tax ⁽²⁾ | 30.3 | 41.9 | 47.0 | 52.6 | 58.9 |
| Utility franchise tax ⁽²⁾ | 249.7 | 285.7 | 327.1 | 374.7 | 429.9 |
| Licenses and permits | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 |
| Fines and penalties ⁽³⁾ | 41.1 | 41.1 | 41.1 | 41.1 | 41.1 |
| Service charges and fees | 225.0 | 225.0 | 225.0 | 225.0 | 225.0 |
| Use of money and property | 50.0 | 56.6 | 58.3 | 62.5 | 65.5 |
| Property transfer tax | 15.5 | 15.8 | 16.1 | 16.4 | 17.0 |
| Subtotal Local Revenue Sources | 1,182.8 | 1,261.1 | 1,336.6 | 1,482.2 | 1,588.1 |
| <u>State Shared Revenue Sources</u> | | | | | |
| Cigarette tax | \$ 43.1 | \$ 47.0 | \$ 48.7 | \$ 50.7 | \$ 52.8 |
| Alcoholic beverage taxes and fees | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 |
| Vehicle and trailer in-lieu fees | 236.2 | 236.2 | 236.2 | 236.2 | 236.2 |
| Gas tax ⁽³⁾ | 158.5 | 130.9 | 98.4 | 67.2 | 41.7 |
| Subtotal State Shared Revenue Sources | \$ 442.2 | \$ 418.5 | \$ 387.7 | \$ 358.5 | \$ 335.1 |
| <u>State and Federal Grants</u> | | | | | |
| General revenue sharing | \$ 233.0 | \$ 247.0 | \$ 261.0 | \$ 288.0 | \$ 308.0 |
| Housing and Community Development Act | 300.0 | 358.0 | -- (4) | -- (4) | -- (4) |
| Subtotal of HCDA Revenue | \$ 300.0 | \$ 358.0 | -- | -- | -- |
| Subtotal of restricted revenue | 199.6 | 172.0 | \$ 139.5 | \$ 108.3 | \$ 82.8 |
| Subtotal of general revenue requiring voter approval | 280.0 | 327.6 | 374.1 | 427.3 | 488.8 |
| Subtotal of other general revenue | 1,378.4 | 1,427.8 | 1,471.7 | 1,593.1 | 1,659.6 |

- Notes: (1) Minimum City Services
 (2) Levy of these taxes requires two-thirds voter approval.
 (3) Revenue restricted to street and traffic safety expenses.
 (4) Future HCDA revenue beyond 1981-82 is not projected.

Source: McDonald & Associates

V. ANALYSIS OF THE INCORPORATION ALTERNATIVES

A. The Form, Requirements and Size of a City Government for East Palo Alto

The actual boundaries, type of government costs, and services delivered by a city of East Palo Alto would only be made clear by an actual incorporation proposal. For purposes of this analysis, two alternatives were prepared. Alternative A represents a city of East Palo Alto which only delivers the legally required city services. Alternative B represents a city offering a fuller range of services. The service levels for both alternatives are intended to maintain or improve existing service levels, although no major new service expansion is included.

1. The Form of City Government

Once the decision in favor of incorporation is made, the specific form of the city government must be decided upon. The major decisions concerning what the type of government will be, which services will be provided directly by the city, and which services will be provided by service contracts are usually covered in a feasibility study or application to LAFCO, since a fairly clear estimate of costs and revenues should be included. This analysis, while providing data for the actual application for incorporation, does not comprise such a specific feasibility study.

Incorporation automatically creates a general law city, one of two classes of city government in California. The other class is the charter city, which may be formed from an existing general law city by voter approval. Cities organized under city charters generally have more flexibility in the power they exercise and the procedures they follow. Changes granted by the state legislature have reduced the distinction between the two city types.

A general law city may be administered in three basic ways:

- Council-Manager City. The city council hires, and may fire, a city manager. The manager has extensive administrative authority and is responsible for appointment and dismissal of city department heads, for budget preparation, etc.
- Council Administrator. The city council hires, and may fire, a city administrator who is responsible for day-to-day operation of the city, but the council retains the key administrative powers, such as hiring or firing city department heads, etc.
- Mayor-Council. The city council acts collectively as the city's chief executive.

For purposes of this analysis it was assumed a council-manger form of government would be adopted by East Palo Alto.

Another important decision affecting the form of a city is which services will be provided. California cities display great diversity in the number and types of municipal services they provide. Some cities provide virtually every municipal service, while other cities provide only the legal minimum and leave major services to other agencies such as special districts. The decision of whether to pursue a more full-service role depends upon:

- The relative costs and efficiency between the existing situation and a new city service;
- How much local centralized control is desired;
- The adequacy of the present services;
- The relative difficulty of changing the existing arrangements at the time of incorporation.

A less than full-service city has two major avenues available for provision of municipal services: service contracts with other agencies or private companies and continuation of special districts after incorporation.

The decision to utilize service contracts depends upon two conflicting factors: the potential cost and efficiency advantage versus the need to maintain city control over the administration of the service. The recent trend in California cities has been toward service contracts for at least several municipal services. Even with extensive contract services, a city government is still obliged to maintain a council and a city administration. For purposes of this analysis service contracts were included for several relatively minor services.

The decision to continue with existing service providers such as special districts, is similar to the decision to utilize service contracts. When the services of one or more special districts are not absorbed by the new city, the costs and revenues of those agencies do not show up in the city's budget. This is an advantage to the city's budget-makers, but the residents of the city pay for the services nonetheless. Absorption of special districts by a new city may result in a reduction of total service costs in the community because of the potential efficiency of the larger organization. The city may also benefit from being a more full-service city by recording a larger fiscal effort, which is a factor in eligibility for federal grants such as general revenue sharing. Regardless of the advantages of absorbing special districts, there are many potential problems with the actual mechanics (and politics) of a take over. Boundaries are critical. If a district boundary is within or conterminous with

the proposed city boundaries, the problems are reduced. If detachment from a larger district is required, major problems are created, including the viability of the district that has been reduced. Also, under Proposition 13, tax base given up by a district may not be replaced. Under Proposition 13, incorporation is a fiscal zero sum game, that is, no new tax base may be created.

For this analysis, the issue of the number of services to be provided by the new city was handled by offering two alternatives. In Alternative A most of the existing special districts continue to provide services. In Alternative B the new city absorbs most of the special districts, with the key exceptions of library service and fire protection.

2. Survey of Existing Cities

A method traditionally used in incorporation feasibility studies is comparison with existing cities of comparable size. Although this survey procedure may be helpful, it rarely produces an accurate measure. One fact that does become clear from this comparison is the great diversity that exists in the amount and manner in which cities spend money for municipal services. Table V-1 shows some expenditures of cities near the size of East Palo Alto during the 1977-78 fiscal year. These figures do not reflect the inflation that has occurred since 1977.

For this analysis, municipal service costs were based on existing levels of service being provided to East Palo Alto and a estimate of the costs required to replace or slightly improve those services within a municipal framework.

B. Details of the Two Incorporation Alternatives

1. Alternative A - Legally Required Services Only

Alternative A is provided as an example of the minimum city government permitted by law. East Palo Alto would become responsible for the legally required services plus garbage service. Responsibility for the balance of the municipal services would be retained by the county and the various special districts. It is assumed that although the new city would become responsible for street maintenance, the County Public Works Department would remain responsible for completion of the present street capital improvement program (R-19). Municipal revenue dedicated to street improvements and traffic safety (including the gas tax revenue, vehicle code violation revenue and portions of federal block grant funds allocated for street improvements) would be shared between East Palo Alto and the county.

Table V-1
EXPENDITURES OF SMALL CITIES FOR MUNICIPAL SERVICES

| | City ¹ | | | | | | | | | |
|---|-------------------|---------------|------------------|---------------|----------------|-------------|---------------|---------------|-------------------|---------------|
| | <u>Albany</u> | <u>Pinole</u> | <u>San Pablo</u> | <u>Delano</u> | <u>Hanford</u> | <u>Bell</u> | <u>Cudahy</u> | <u>Duarte</u> | <u>El Segundo</u> | <u>Colton</u> |
| Population | 15,561 | 15,500 | 21,800 | 15,704 | 18,876 | 21,836 | 16,998 | 15,100 | 15,750 | 20,727 |
| <u>Municipal Service</u> | | | | | | | | | | |
| General Government | \$857,384 | \$600,981 | \$1,303,584 | \$540,189 | \$951,301 | \$ 908,248 | \$513,970 | \$762,349 | \$1,854,181 | \$1,262,474 |
| Police Protection | 792,449 | 679,056 | 967,042 | 808,330 | 790,274 | 1,094,200 | 530,622 | 320,119 | 2,121,715 | 1,076,169 |
| Planning & Building Inspection | 155,820 | 140,120 | 33,127 | 68,596 | 160,496 | 84,323 | 19,736 | 30,334 | 262,692 | 152,817 |
| Public Works | | | | | | | | | | |
| - Engineering and Administration | 106,740 | 65,211 | 103,240 | 126,228 | 147,717 | 46,426 | 10,673 | 31,142 | 195,147 | 146,382 |
| - Streets, Storm Drains & Street Lights | 504,091 | 189,039 | 818,617 | 298,085 | 365,482 | 277,248 | 76,915 | 271,331 | 574,116 | 569,733 |
| - Sanitary Sewers | 31,708 | 274,701 | -0- | -0- | 211,898 | -0- | -0- | -0- | 210,530 | -0- |
| - Unallocated and Corporation Yard | 3,111 | 24,042 | -0- | 58,795 | 15,425 | -0- | -0- | -0- | 36,607 | 42,611 |
| Parks and Recreation | 468,596 | 195,728 | 297,442 | 391,639 | 317,736 | 212,703 | 45,228 | 162,991 | 820,148 | 367,453 |
| Animal Control | 14,314 | -0- | -0- | 13,163 | -0- | 15,881 | -0- | 23,095 | 11,866 | 25,598 |
| Civil Defense | 7,942 | -0- | 2,254 | 3,124 | 1,455 | 4,186 | -0- | 293 | 2,145 | 333 |
| Garbage Collection | -0- | -0- | -0- | 276,956 | 404,230 | -0- | -0- | 148,783 | 132,497 | 337,648 |

¹ These California cities have populations between 15,000 and 22,000 and are not growing rapidly.

Source: California State Controller (R-5)

a. Description of Alternative A

The Alternative A City of East Palo Alto is assumed to be a general law, council-manager city. It would assume responsibility for the following services:

- General Government
- Police Protection
- Street Maintenance
- Planning and Building Inspection
- Animal Control
- Civil Defense
- Garbage Collection.

These services could be provided directly by the city or provided through service contracts. For purposes of this analysis, it was assumed that all the services would be performed by city personnel except engineering services, legal services, animal control, civil defense and garbage collection. The level of service proposed is generally set at existing levels. Where a substandard level of service presently exists, an additional increment of service is proposed. The city staff proposed should generally be considered a core staff. Many cities have employees financed by CETA or specific federal grants. These programs will undoubtedly exist in East Palo Alto but are not specifically identified.

The details of the Alternative A City of East Palo Alto are shown in Table V-2.

The projection of municipal service costs associated with Alternative A is based on a detailed cost analysis of the new city government. The base employee salaries are based on equivalent, top-step San Mateo County positions where possible. The actual cost of personnel salaries and benefits may be slightly lower than presented. Service and supply budgets are set at a flat percentage for each department. Again, the actual costs of service and supplies for the new city may vary, but for this analysis the flat percentage rate provides an adequate estimate.

A summary of projected municipal service costs associated with the Alternative A City of East Palo Alto is provided in Table V-3. It is assumed that these costs will increase annually with inflation, but no new costs would be added during the first five years of municipal operation. Table V-4 provides a detailed breakdown of the cost assumptions.

Table V-2

DETAILS OF INCORPORATION ALTERNATIVE A, EAST PALO ALTO

| MUNICIPAL SERVICE | CURRENT SERVICE PROVIDER | INCORPORATION ALTERNATIVE SERVICE PROVIDER | EFFECT OF INCORPORATION ON ORIGINAL PROVIDER | EAST PALO ALTO REVENUE SOURCES | EFFECT OF INCORPORATION ON LEVEL OF SERVICE |
|---|---|---|---|--|--|
| General government | San Mateo County Government East Palo Alto Municipal Council | East Palo Alto City Government | Slightly reduced effort Direct cost savings | City general fund Costs applied from special funds and grants | Increased local autonomy and political responsiveness |
| Planning, building inspection, ordinance administration | San Mateo County Department of Environmental Management East Palo Alto Municipal Council | East Palo Alto Community Development Department | Reduced effort Direct cost savings Small loss of property tax and fee revenues | City general fund Permit and service fees Grants | Potential for improved ordinance enforcement |
| Police services | San Mateo County Sheriff's Dep't (County Service Area No. 5) California Highway Patrol | East Palo Alto Police Department | Reduced effort Direct cost savings Loss of property tax proportional to CSA #5 share of local property tax County Service Area No. 5 dissolved | City general fund | Service level would generally be maintained. Loss of CHP traffic control will cause additional workload for new police department. |
| Streets | San Mateo County Public Works Department | East Palo Alto Community Development Department | Reduction in maintenance effort County retains responsibility for capital improvements planned or under construction | Gas tax Vehicle code fines Federal grants | No significant effects |

Table V-2
Alternative A, continued

| MUNICIPAL SERVICE | CURRENT SERVICE PROVIDER | INCORPORATION ALTERNATIVE SERVICE PROVIDER | EFFECT OF INCORPORATION ON ORIGINAL PROVIDER | EAST PALO ALTO REVENUE SOURCES | EFFECT OF INCORPORATION ON LEVEL OF SERVICE |
|-------------------|--|--|--|---|---|
| Sanitary sewers | East Palo Alto Sanitary District Menlo Park Sanitary District | Same as current providers | None | Current providers would continue with existing revenue sources | None |
| Water supply | East Palo Alto Water District Private water companies | Same as current providers | None | Current providers would continue with existing revenue sources | None |
| Drainage | East Palo Alto Gardens Drainage Maintenance Dist. East Palo Alto Drainage Maintenance Dist. Ravenswood Slough Drainage Maintenance Dist. | Same as current providers | None | Current providers would continue with existing revenue sources or convert to a benefit assessment | None |
| Fire protection | Menlo Park Fire District | Same as current provider | None | Current provider would continue with existing revenue sources | None |

Table V-2
Alternative A, continued

| MUNICIPAL SERVICE | CURRENT SERVICE PROVIDER | INCORPORATION ALTERNATIVE SERVICE PROVIDER | EFFECT OF INCORPORATION ON ORIGINAL PROVIDER | EAST PALO ALTO REVENUE SOURCES | EFFECT OF INCORPORATION ON SERVICE LEVEL |
|----------------------------|--|--|---|--|--|
| Local parks and recreation | Ravenswood Recreation and Park District | Same as current provider | None | Current provider would continue with existing revenue sources | None |
| Library | San Mateo County Library | Same as current provider | None | Current provider would continue with existing revenue sources | None |
| Animal control | Peninsula Humane Society | Same as current provider, but under contract to East Palo Alto | Peninsula Humane Society would continue with city instead of county | Current provider would continue with existing revenue sources | None |
| Garbage collection | San Mateo County (County Service Area No. 5) | City of East Palo Alto (contract service) | CSA #5 dissolved | Fees adequate to cover cost of contract service and administration | None |
| Street lighting | Ravenswood Highway Lighting District | Same as current provider | None | Benefit assessment paid by property owners | None |

Table V-2
Alternative A, continued

| MUNICIPAL SERVICE | CURRENT SERVICE PROVIDER | INCORPORATION ALTERNATIVE SERVICE PROVIDER | EFFECT OF INCORPORATION ORIGINAL PROVIDER | EAST PALO ALTO REVENUE SOURCES | EFFECT OF INCORPORATION ON LEVEL OF SERVICE |
|----------------------------|--|---|--|--|---|
| Civil defense | San Mateo County Civil Defense | Same as existing provider, but under contract to East Palo Alto | San Mateo County Civil Defense would contract with city for services | City general fund | None |
| Emergency Medical Services | Menlo Park Fire District San Mateo County (contract with Medevac) | Same as existing providers | None | Current providers would continue with existing revenue sources | None |

Table V-3

PROJECTION OF MUNICIPAL SERVICE COSTS
EAST PALO ALTO INCORPORATION ALTERNATIVE A

| <u>Services Provided</u> | <u>1980-85 Annual Average Operating Costs (1979 Dollars)</u> |
|---|--|
| Police Protection | \$1,222,300 |
| General Government | 328,000 |
| Community Development (Including planning, building inspection, and road maintenance) | 364,600 |
| Animal Control | 9,400 |
| Civil Defense | 3,500 |
| Garbage Collection | 220,000 |
| TOTAL | <u>\$2,147,800</u> |

Source: McDonald & Associates

Table V-4

SERVICE COSTS

EAST PALO ALTO INCORPORATION ALTERNATIVE A

| <u>Service</u> GENERAL GOVERNMENT | | | | |
|---|--|--------|-----------|------------|
| Agency | Position | Number | Salary | Total |
| CITY COUNCIL | | | | \$ 9,000 |
| CITY ATTORNEY | City Attorney (Contract) | - | Contract | (25,000) |
| CITY ADMINISTRATION | City Manager/Clerk | 1 | \$ 35,000 | 35,000 |
| | Deputy Clerk/ Secretary | 1 | 15,000 | 15,000 |
| | Assistant Manager (Finance-Personnel) | 1 | 25,000 | 25,000 |
| | Accountant | 1 | 21,000 | 21,000 |
| | Administrative Assistant | 2 | 22,000 | 44,000 |
| | Accountant Clerk | 1 | 12,500 | 12,500 |
| | Staff Clerk | 2 | 12,500 | 25,000 |
| Total Salary | | 9 | | \$ 186,500 |
| Benefits @ 25% | | | | 46,625 |
| Total Employee Cost | | | | 233,125 |
| Services and Supplies @ 30 % plus contract services | | | | 94,937 |
| TOTAL SERVICE COST | | | | \$ 328,062 |

Table V-4

SERVICE COSTS

EAST PALO ALTO INCORPORATION ALTERNATIVE A

| <u>Service</u> POLICE SERVICES | | | | |
|--------------------------------|---|--------|-----------|-------------|
| Agency | Position | Number | Salary | Total |
| PUBLIC SAFETY | Director of Public Safety | 1 | \$ 30,000 | \$ 30,000 |
| | Lieutenant | 1 | 26,500 | 26,500 |
| | Sergeant | 5 | 24,000 | 120,000 |
| | Officers | 22 | 20,000 | 440,000 |
| | SUB-TOTAL UNIFORMED PERSONNEL | 29 | | \$ 616,500 |
| | BENEFITS @ 30% | | | 184,950 |
| | SUB-TOTAL UNIFORMED PERSONNEL COST | | | \$ 801,450 |
| | Clerk-Dispatchers | 6 | 13,500 | \$ 81,000 |
| | Community Services Officers | 2 | 15,000 | 30,000 |
| | SUB-TOTAL NON-UNIFORM-ED PERSONNEL | 8 | - | 111,000 |
| | BENEFITS @ 25% | | | 27,750 |
| | SUB-TOTAL NON-UNIFORM-ED PERSONNEL COST | | | \$ 138,750 |
| Total Salary | | 37 | | \$ 727,500 |
| Benefits @ (See Above) | | | | 212,700 |
| Total Employee Cost | | | | 940,200 |
| Services and Supplies @ 30 % | | | | 282,060 |
| TOTAL SERVICE COST | | | | \$1,222,260 |

Table V-4

SERVICE COSTS

EAST PALO ALTO INCORPORATION ALTERNATIVE A

| Service PLANNING, BUILDING INSPECTION AND OTHER GENERAL INSPECTION, ORDINANCE ADMINISTRATION AND ENFORCEMENT AND ROAD MAINTENANCE. | | | | |
|---|--------------------------------------|--------|-----------|------------|
| Agency | Position | Number | Salary | Total |
| COMMUNITY DEVELOPMENT | Director of Community Development | 1 | \$ 30,000 | \$ 30,000 |
| | Associate Planner | 1 | 22,000 | 22,000 |
| | Assistant Planner | 1 | 18,000 | 18,000 |
| | Inspector | 1 | 22,000 | 22,000 |
| | Maintenance Supervisor | 1 | 24,500 | 24,500 |
| | Road Maintenance Workers | 4 | 18,000 | 72,000 |
| | Staff Clerk | 1 | 12,500 | 12,500 |
| | Engineering Services (Contract) | - | - | (20,000) |
| Total Salary | | 10 | | \$ 201,000 |
| Benefits @ 25% | | | | 50,250 |
| Total Employee Cost | | | | 251,250 |
| Services and Supplies @ 30 % plus Engineering Contract | | | | 95,375 |
| TOTAL SERVICE COST | | | | \$ 364,625 |

b. Projection of Alternative A Revenue

The revenue projection for the Alternative A City of East Palo Alto is based upon the revenue projection provided in Chapter IV. Chapter IV includes a detailed description of the revenue sources and provides a five year projection. The projection of local revenues includes revenues which would require approval by two-thirds of the voters as required by Proposition 13. Not included are federal grant revenue associated with specific programs such as CETA employment, and the youth services program in East Palo Alto. Although these programs can be expected to continue, they do not directly bear upon the issue of fiscal feasibility of a new city. The revenue for Alternative A projection V is given in Table V-5. The HCDA revenue shown is derived from the existing program allotment, which ends in 1982. Should East Palo Alto pursue discretionary HCDA funds, this revenue source could substantially increase.

c. Comparison of Alternative A Costs and Revenues

The comparison of costs and revenues associated with the Alternative A City of East Palo Alto indicates a revenue deficit would exist for at least the first four years of municipal operation. Table V-6 shows the comparison of costs and revenues for Alternative A. Although the costs of providing municipal services to East Palo Alto are reasonable on a per capita basis, revenues are very deficient. Two major components of municipal government revenue, property taxes and sales taxes, are very low on a comparative per capita basis. Also, the revenues dedicated to road construction and maintenance continually decline in real dollar terms. Unless the state gas tax is substantially increased, this situation will require road maintenance and construction to be financed from general fund sources.

The cost-revenue relationship is shown to improve over the five year period. While costs are assumed to remain constant when corrected for inflation, revenues are expected actually to increase. Key assumptions which support this finding are increased property taxes, sales taxes, and franchise taxes.

2. Alternative B - Integration of Existing Special Districts Into City Government

a. Description of Alternative B

The Alternative B City of East Palo Alto is assumed to be a general law, council-manager city similar to the Alternative A city. It would be responsible for a broader range of services than Alternative A including the following:

FIVE YEAR PROJECTION OF REVENUE
EAST PALO ALTO INCORPORATION ALTERNATIVE A

| Revenue Sources | Projected Revenue Available (thousands of 1979 dollars) | | | | |
|--|--|----------|----------|----------|----------|
| | 1980-81 | 1981-82 | 1982-83 | 1983-84 | 1984-85 |
| <u>Local Revenue Sources</u> | | | | | |
| Property tax ⁽¹⁾ | \$ 359.0 | \$ 363.0 | \$ 366.0 | \$ 371.0 | \$ 376.0 |
| Sales tax | 172.2 | 192.8 | 216.0 | 298.9 | 334.7 |
| Business license tax ⁽²⁾ | 30.3 | 41.9 | 47.0 | 52.6 | 58.9 |
| Utility franchise tax ⁽²⁾ | 249.7 | 285.7 | 327.1 | 374.7 | 429.9 |
| Licenses and permits | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 |
| Fines and penalties ⁽³⁾ | 41.1 | 41.1 | 41.1 | 41.1 | 41.1 |
| Service charges and fees | 225.0 | 225.0 | 225.0 | 225.0 | 225.0 |
| Use of money and property | 50.0 | 56.6 | 58.3 | 62.5 | 65.5 |
| Property transfer tax | 15.5 | 15.8 | 16.1 | 16.4 | 17.0 |
| Subtotal Local Revenue Sources | 1,182.8 | 1,261.1 | 1,336.6 | 1,482.2 | 1,588.1 |
| <u>State Shared Revenue Sources</u> | | | | | |
| Cigarette tax | \$ 43.1 | \$ 47.0 | \$ 48.7 | \$ 50.7 | \$ 52.8 |
| Alcoholic beverage taxes and fees | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 |
| Vehicle and trailer in-lieu fees ⁽³⁾ | 236.2 | 236.2 | 236.2 | 236.2 | 236.2 |
| Gas tax | 158.5 | 130.9 | 98.4 | 67.2 | 41.7 |
| Subtotal State Shared Revenue Sources | \$ 442.2 | \$ 418.5 | \$ 387.7 | \$ 358.5 | \$ 335.1 |
| <u>State and Federal Grants</u> | | | | | |
| General revenue sharing | \$ 233.0 | \$ 247.0 | \$ 261.0 | \$ 288.0 | \$ 308.0 |
| Housing and Community Development Act | 300.0 | 358.0 | -- (4) | -- (4) | -- (4) |
| Subtotal of HCDA Revenue | \$ 300.0 | \$ 358.0 | -- | -- | -- |
| Subtotal of restricted revenue | 199.6 | 172.0 | \$ 139.5 | \$ 108.3 | \$ 82.8 |
| Subtotal of general revenue requiring voter approval | 280.0 | 327.6 | 374.1 | 427.3 | 488.8 |
| Subtotal of other general revenue | 1,378.4 | 1,427.8 | 1,471.7 | 1,593.1 | 1,659.6 |

- Notes: (1) Minimum City Services
 (2) Levy of these taxes requires two-thirds voter approval.
 (3) Revenue restricted to street and traffic safety expenses.
 (4) Future HCDA revenue beyond 1981-82 is not projected.

Source: McDonald & Associates

Table V-6

ALTERNATIVE A
SUMMARY OF COSTS AND REVENUES

| Costs and Revenue Categories | Cost-Revenue Projection (Thousands of 1979 Dollars) | | | | |
|--|--|---------|---------|---------|---------|
| | 1980-81 | 1981-82 | 1982-83 | 1983-84 | 1984-85 |
| <u>GENERAL REVENUE</u> | | | | | |
| LOCAL | \$1,141.7 | 1,220.8 | 1,295.5 | 1,441.1 | 1,547.0 |
| STATE SHARED | 283.7 | 287.6 | 289.3 | 291.3 | 293.4 |
| FEDERAL REVENUE SHARING | 233.0 | 247.0 | 261.0 | 288.0 | 308.0 |
| TOTAL | \$1,658.4 | 1,755.4 | 1,845.8 | 2,020.4 | 2,148.4 |
| <u>DEDICATED REVENUE</u> | | | | | |
| STATE SHARED | \$ 158.5 | 130.9 | 98.4 | 67.2 | 41.7 |
| LOCAL | \$ 41.1 | 41.1 | 41.1 | 41.1 | 41.1 |
| TOTAL | \$ 199.6 | 172.0 | 139.5 | 108.3 | 82.8 |
| <u>EXPENSES (OPERATING ONLY)</u> | | | | | |
| GENERAL | \$1,897.8 | 1,897.8 | 1,897.8 | 1,897.8 | 1,897.8 |
| ELIGIBLE FOR DEDICATED REVENUE ¹ | 250.0 | 250.0 | 250.0 | 250.0 | 250.0 |
| TOTAL | \$2,147.8 | 2,147.8 | 2,147.8 | 2,147.8 | 2,147.8 |
| <u>SURPLUS (DEFICIT)²</u> | | | | | |
| GENERAL | \$ (239.4) | (142.4) | (52.0) | 122.6 | 250.6 |
| DEDICATED | (50.4) | (78.0) | (110.5) | (141.7) | (167.2) |
| TOTAL | \$ (289.8) | (220.4) | (162.5) | (19.1) | 83.4 |

1. This includes both direct costs and applied administrative costs, etc.

2. Assumes that voter approval is received for new special taxes which will equal \$311,600 during the first year of municipal operation. Without this revenue the initial fiscal feasibility of the alternative "A" City is substantially worsened.

- General Government;
- Police Protection;
- Planning and Building Inspection;
- Water Service;
- Sanitary Services;
- Street Maintenance;
- Drainage Maintenance;
- Street Lighting;
- Parks and Recreation;
- Animal Control;
- Civil Defense;
- Garbage Collection;

Although these services could be provided through service contracts, in this analysis it was assumed that all services would be provided directly by the city except, engineering services, attorney services, animal control, civil defense, garbage collection, and park maintenance and street lighting. Similar to the Alternative A city, the proposed level of service is generally set at existing levels. Where a substandard level of service presently exists, an additional increment of service is proposed. Also like Alternative A, the proposed city staff might be augmented by staff and programs funded by specific federal grants such as CETA.

Details of the Alternative B City of East Palo Alto are provided in Table V-7.

The projection of municipal service costs associated with Alternative B is based on a detailed cost analysis of the new city government, similar to the analysis prepared for Alternative A, but including the additional positions required. A summary of the projected municipal service costs associated with the Alternative B City of East Palo Alto is provided in Table V-8. It is assumed that these costs will increase annually with inflation, but no new costs would be added during the first five years of municipal operation. Table V-9 provides the detailed breakdown of the cost assumptions. Costs shown on Table V-8 for sanitation, water supply include costs not shown on Table V-9. These include major operational costs such as water purchase, sewage treatment, debt service, applied administration and several contract services. Costs for contract services are based on current costs, adjusted for

Table V-7

DETAILS OF INCORPORATION ALTERNATIVE B, EAST PALO ALTO

| MUNICIPAL SERVICE | CURRENT SERVICE PROVIDER | INCORPORATION ALTERNATIVE SERVICE PROVIDER | EFFECT OF INCORPORATION ON ORIGINAL PROVIDER | EAST PALO ALTO REVENUE SOURCES | EFFECT OF INCORPORATION ON LEVEL OF SERVICE |
|---|---|---|---|--|--|
| General government | San Mateo County Government East Palo Alto Municipal Council | East Palo Alto City Government | Slightly reduced effort Direct cost savings | City general fund Costs applied from special funds and grants | Increased local autonomy and political responsiveness |
| Planning, building inspection, ordinance administration | San Mateo County Department of Environmental Management East Palo Alto Municipal Council | East Palo Alto Community Development Department | Reduced effort Direct cost savings Small loss of property tax and fee revenues | City general fund Permit and service fees Grants | Potential for improved ordinance enforcement |
| Police services | San Mateo County Sheriff's Dep't (County Service Area No. 5) California Highway Patrol | East Palo Alto Police Department | Reduced effort Direct cost savings Loss of property tax proportional to CSA #5 share of local property tax County Service Area No. 5 dissolved | City general fund | Service level would generally be maintained. Loss of CHP traffic control will cause additional workload for new police department. |
| Streets | San Mateo County Public Works Department | East Palo Alto Public Works Department, Road Division | Reduction in maintenance effort County retains responsibility for capital improvements planned or under construction | Gas tax Vehicle code fines Federal grants City general fund | No significant effects |

Table V
Alternative B, Continued

| MUNICIPAL SERVICE | CURRENT SERVICE PROVIDER | INCORPORATION ALTERNATIVE SERVICE PROVIDER | EFFECT OF INCORPORATION ON ORIGINAL PROVIDER | EAST PALO ALTO REVENUE SOURCES | EFFECT OF INCORPORATION ON LEVEL OF SERVICE |
|-------------------|--|--|--|---|---|
| Sanitary sewers | East Palo Alto Sanitary Dist. Menlo Park Sanitary Dist. | East Palo Alto Public Works Department, Sanitary Div. Menlo Park Sanitary Dist. | Dissolution of East Palo Alto Sanitary District | User fees | None |
| Water supply | East Palo Alto Water District Private water companies | East Palo Alto Public Works Department, Water Division Private water companies | Dissolution of East Palo Alto Water District Private companies would continue | User fees | None |
| Drainage | East Palo Alto Gardens Drainage Maintenance Dist. East Palo Alto Drainage Maintenance Dist. Ravenswood Slough Drainage Maintenance Dist. | East Palo Alto Public Works Department, Road Division | Dissolution of existing county drainage maintenance districts within East Palo Alto | City would finance drainage maintenance with benefit assessment paid by property owners | None |
| Fire protection | Menlo Park Fire District | Same as current provider | None | Current provider would continue with existing revenue sources | None |

Table V-7
Alternative B, continued

| MUNICIPAL SERVICE | CURRENT SERVICE PROVIDER | INCORPORATION ALTERNATIVE SERVICE PROVIDER | EFFECT OF INCORPORATION ON ORIGINAL PROVIDER | EAST PALO ALTO REVENUE SOURCES | EFFECT OF INCORPORATION ON SERVICE LEVEL |
|----------------------------|--|--|---|--|--|
| Local parks and recreation | Ravenswood Recreation and Parks District | East Palo Alto Parks and Recreation Department | Dissolution of Ravenswood Recreation and Parks District | City general Fund User fees Federal and state grants | Improved park maintenance Greater emphasis on fee programs Cooperation with youth services program |
| Library | San Mateo County Library | Same as current provider | None | Current provider would continue with existing revenue sources | None |
| Animal control | Peninsula Humane Society | Same as current provider (contract service) | Peninsula Humane Society would continue with city instead of county | Current provider would continue with existing revenue sources | None |
| Garbage collection | San Mateo County (County Service Area No. 5) | City of East Palo Alto (contract service) | CSA #5 dissolved | Fees adequate to cover cost of contract service and administration | None |

Table
Alternative B, continued

| MUNICIPAL SERVICE | CURRENT SERVICE PROVIDER | INCORPORATION ALTERNATIVE SERVICE PROVIDER | EFFECT OF INCORPORATION ON ORIGINAL PROVIDER | EAST PALO ALTO REVENUE SOURCES | EFFECT OF INCORPORATION ON SERVICE LEVEL |
|-------------------|--|---|--|---|--|
| Street lighting | Ravenswood Highway Lighting District | City of East Palo Alto (contract service) | Dissolution of Ravenswood Highway Lighting District | City would finance street lighting with benefit assessment charged to property owners | None |
| Civil defense | San Mateo County Civil Defense | Same as existing provider, but under contract to East Palo Alto | San Mateo County Civil Defense would contract with city for services | City general fund | None |
| Emergency medical | Menlo Park Fire District San Mateo County (contract with Medevac) | Same as existing providers | None | Current providers would continue with existing revenue sources | None |

Table V-8

PROJECTION OF MUNICIPAL SERVICE COSTS
EAST PALO ALTO INCORPORATION ALTERNATIVE B

| <u>Services Provided</u> | <u>1980-85 Average Annual Operating Costs (1979 Dollars)</u> |
|--|--|
| Police Protection | \$1,222,300 |
| General Government | 333,000 |
| Community Development (including planning and building inspection) | 162,000 |
| Public Works (including street and drainage maintenance, sanitation, and water supply) | 1,000,000 |
| Parks and Recreation | 189,500 |
| Animal Control | 9,400 |
| Civil Defense | 3,500 |
| Garbage Collection | 220,000 |
| Street Lighting | 120,000 |
| TOTAL | <u>\$3,259,700</u> |

Source: McDonald & Associates

Table V-9

SERVICE COSTS

EAST PALO ALTO INCORPORATION ALTERNATIVE B

| <u>Service</u> GENERAL GOVERNMENT | | | | |
|--|--|--------|----------|------------|
| Agency | Position | Number | Salary | Total |
| CITY COUNCIL | | | | \$ 9,000 |
| CITY ATTORNEY | CITY ATTORNEY (Contract) | - | Contract | 30,000 |
| CITY ADMINISTRATION | CITY MANAGER/CLERK | 1 | 35,000 | 35,000 |
| | DEPUTY CLERK/ SECRETARY | 1 | 15,000 | 15,000 |
| | ASSISTANT MANAGER (Finance-Personnel) | 1 | 25,000 | 25,000 |
| | ACCOUNTANT | 1 | 21,000 | 21,000 |
| | ADMINISTRATIVE ASSISTANTS | 2 | 22,000 | 44,000 |
| | ACCOUNTANT CLERK | 1 | 12,500 | 12,500 |
| | STAFF CLERK | 2 | 12,500 | 25,000 |
| Total Salary | | 9 | - | 186,500 |
| Benefits @ 25% | | | | 46,625 |
| Total Employee Cost | | | | 233,125 |
| Services and Supplies @ 30 % + Attorney (Contract) | | | | 99,938 |
| TOTAL SERVICE COST | | | | \$ 333,063 |

Table V-9

SERVICE COSTS

EAST PALO ALTO INCORPORATION ALTERNATIVE B

| <u>Service</u> POLICE SERVICES | | | | |
|--------------------------------|---|--------|----------|-------------|
| Agency | Position | Number | Salary | Total |
| PUBLIC SAFETY | DIRECTOR OF PUBLIC SAFETY | 1 | \$30,000 | \$ 30,000 |
| | LIEUTENANT | 1 | 26,500 | 26,500 |
| | SERGEANT | 5 | 24,000 | 120,000 |
| | OFFICERS | 22 | 20,000 | 440,000 |
| | SUB-TOTAL UNIFORMED PERSONNEL | 29 | - | \$ 616,500 |
| | BENEFITS @ 30% | | | 184,950 |
| | SUB-TOTAL UNIFORMED PERSONNEL COST | | | \$ 801,450 |
| | CLERK-DISPATCHERS | 6 | 13,500 | \$ 81,000 |
| | COMMUNITY SERVICES OFFICERS | 2 | 15,000 | 30,000 |
| | SUB-TOTAL NON-UNIFORM-ED PERSONNEL | 8 | | \$ 111,000 |
| | BENEFITS @ 25% | | | 27,750 |
| | SUB-TOTAL NON-UNIFORM-ED PERSONNEL COST | | | \$ 138,750 |
| Total Salary | | | | \$ 727,500 |
| Benefits @ (See Above) | | | | 212,700 |
| Total Employee Cost | | | | 940,200 |
| Services and Supplies @ 30 % | | | | 282,060 |
| TOTAL SERVICE COST | | | | \$1,222,260 |

Table V-9

SERVICE COSTS

EAST PALO ALTO INCORPORATION ALTERNATIVE B

| Service PLANNING, BUILDING INSPECTION, AND ORDINANCE ENFORCEMENT | | | | |
|--|-----------------------------------|--------|-----------|------------|
| Agency | Position | Number | Salary | Total |
| COMMUNITY DEVELOPMENT | DIRECTOR OF COMMUNITY DEVELOPMENT | 1 | \$ 25,000 | \$ 25,000 |
| | ASSOCIATE PLANNER | 1 | 22,000 | 22,000 |
| | ASSISTANT PLANNER | 1 | 18,000 | 18,000 |
| | BUILDING INSPECTOR | 1 | 22,000 | 22,000 |
| | STAFF CLERK | 1 | 12,500 | 12,500 |
| Total Salary | | 5 | | \$ 99,500 |
| Benefits @ 25% | | | | 24,875 |
| Total Employee Cost | | | | 124,375 |
| Services and Supplies @ 30 % | | | | 37,313 |
| TOTAL SERVICE COST | | | | \$ 161,688 |

Table V-9

SERVICE COSTS

EAST PALO ALTO INCORPORATION ALTERNATIVE B

| Service Street maintenance, water service, sanitary service, drainage maintenance; contract administration for garbage collection, street lighting, and engineering services; traffic signal maintenance. | | | | |
|---|---------------------------------|--------|----------|------------|
| Agency | Position | Number | Salary | Total |
| PUBLIC WORKS (ADMINISTRATION) | Director of Public Works | 1 | 30,000 | \$ 30,000 |
| | Administrative Ass't | 1 | 18,000 | 18,000 |
| | Accountant Clerk | 1 | 12,500 | 12,500 |
| | Staff Clerk | 1 | 12,500 | 12,500 |
| | Engineering Services (Contract) | | Contract | (30,000) |
| TOTAL SALARY | | 4 | | \$ 73,000 |
| BENEFITS @ 25% | | | | 18,250 |
| TOTAL EMPLOYEE COST | | | | 91,250 |
| SERVICES AND SUPPLIES @ 30% plus ENGINEERING (contract) | | | | 57,375 |
| TOTAL SERVICE COST | | | | \$ 148,625 |
| PUBLIC WORKS STREET & DRAINAGE MAINTENANCE | Street Maintenance Supervisor | 1 | 24,500 | 24,500 |
| | Street Maintenance Workers | 4 | 19,500 | 78,000 |
| Total Salary | | 5 | | 102,500 |
| Benefits @ 25% | | | | 25,625 |
| Total Employee Cost | | | | 128,125 |
| Services and Supplies @ 30 % | | | | 38,438 |
| TOTAL SERVICE COST | | | | 166,562 |

Table V-9

SERVICE COSTS

EAST PALO ALTO INCORPORATION ALTERNATIVE B

| Service PUBLIC WORKS CONTINUED | | | | |
|---------------------------------------|-------------------------------|--------|-----------|------------|
| Agency | Position | Number | Salary | Total |
| PUBLIC WORKS (WATER DIVISION) | Water Maintenance Supervisor | 1 | \$ 20,000 | \$ 20,000 |
| | Water Maintenance Worker | 3 | 16,500 | 49,500 |
| TOTAL SALARY | | 4 | | \$ 69,500 |
| BENEFITS @ 25% | | | | 17,375 |
| TOTAL EMPLOYEE COST | | | | 86,875 |
| SERVICES & SUPPLIES | | | | 26,063 |
| TOTAL SERVICE COST | | | | \$ 112,938 |
| PUBLIC WORKS (SANITATION DIVISION) | Sanitation Maintenance Worker | 2 | 19,500 | \$ 39,000 |
| Total Salary | | 2 | | \$ 39,000 |
| Benefits @ 25% | | | | 9,750 |
| Total Employee Cost | | | | 48,750 |
| Services and Supplies @ 30 % | | | | 14,625 |
| TOTAL SERVICE COST | | | | 63,375 |

Table V-9

SERVICE COSTS

EAST PALO ALTO INCORPORATION ALTERNATIVE B

| <u>Service</u> PUBLIC WORKS CONTINUED | | | | |
|---|--------------------------------|--------|-----------|-----------|
| Agency | Position | Number | Salary | Total |
| PUBLIC WORKS (CORPORATION YARD, EQUIPMENT REPAIR, STORAGE OF EQUIP- MENT AND MATERIALS) | Corporation Yard Supervisor | 1 | \$ 20,000 | \$ 20,000 |
| | Equipment Mechanic | 1 | 16,500 | 16,500 |
| Total Salary | | 2 | \$ | 36,500 |
| Benefits @ 25% | | | | 9,125 |
| Total Employee Cost | | | | 45,625 |
| Services and Supplies @ 30 % | | | | 13,688 |
| TOTAL SERVICE COST | | | \$ | 59,313 |

Table V-9

SERVICE COSTS

EAST PALO ALTO INCORPORATION ALTERNATIVE B

| Service PARKS AND RECREATION | | | | |
|--|--------------------------------------|--------|-----------|------------|
| Agency | Position | Number | Salary | Total |
| COMMUNITY SERVICES | Director of Community Services | 1 | \$ 22,500 | \$ 22,500 |
| | Recreation and Leisure Manager | 1 | 18,500 | 18,500 |
| | Cultural Development Program Manager | 1 | 18,500 | 18,500 |
| | Staff Clerk | 1 | 12,500 | 12,500 |
| | Extra Help | - | Varies | 20,000 |
| | Maintenance 1 | - | Contract | (40,000) |
| Total Salary | | 4 | | \$ 92,000 |
| Benefits @ 25% | | | | 23,000 |
| Total Employee Cost | | | | 115,000 |
| Services and Supplies @ 30 % plus Maintenance Contract | | | | 74,500 |
| TOTAL SERVICE COST | | | | \$ 189,500 |

1. Maintenance could also be provided by additional city personnel and utilize youth services program trainees etc.. A small saving might be gained by this approach.

inflation. These additional costs associated with the Public Works Department are shown on Table V-10.

b. Projection of Revenue

The revenue projection for Alternative B is similar to Alternative A based upon the revenue projection provided in Chapter IV. Because the Alternative B City of East Palo Alto integrates existing special districts, additional revenue can be expected from four sources:

- The AB 8 formula for allocating property tax revenues is based on existing agencies' shares of the property tax. The Alternative B city would include special districts presently receiving property tax revenues; hence, it would be entitled to a greater share of this revenue.
- The enterprise special districts are presently funded, all or in part, by user fees. These fees would also be used by East Palo Alto. Present fees for sanitation service may have to be increased slightly. Other fees appear adequate.
- Drainage maintenance and street lighting in 1978-79 were financed by county gas tax revenue and state SB 154 bailout revenue. The city will have to switch to a benefit assessment for these services. This assessment will be placed on property owner's property tax bill.
- The larger size of the Alternative B city's budget will create larger fund balances. These revenues will collect interest and increase the city's revenue proportional to the increased budget over the Alternative A city.

The projection of revenue for the Alternative B City of East Palo Alto is given in Table V-II.

c. Comparison of Alternative B Costs and Revenue

The comparison of costs and revenues associated with the Alternative B City of East Palo Alto indicates a revenue deficit would exist for at least the first five years of municipal operation. Table V-12 shows the comparison of costs and revenues for Alternative B. The reasons for the projected deficit are the same as for the Alternative A city. The greater deficit showing for the Alternative B city is caused by greater costs for public works.

Also similar to the Alternative A city, the cost revenue ration is shown to improve over the five year projection period.

Table V-10

COSTS, REVENUES, AND APPLIED COSTS FOR PUBLIC WORKS DEPARTMENT
(1979 Dollars)

| <u>Division</u> | <u>Item</u> | <u>Cost</u> (000) | <u>Revenue</u> (000) | <u>Applied Costs</u> | |
|----------------------|-----------------------------|----------------------|-------------------------|---|--|
| | | | | <u>Public Works Administration</u> (000) | <u>General Government</u> (000) |
| <u>Roads</u> | Gas tax | | 159 | | |
| | Vehicle code fines | | 41 | | |
| | Drainage benefit assessment | | 25 | | |
| | Maintenance costs | (167) | | | |
| | Indirect costs | | | | |
| | - Administration | (61) | | | |
| | - Corporation yard | (29) | | | |
| | - A-87 overhead | (23) | | | |
| | - Traffic signal maint. | (10) | | | |
| | BALANCE | (65) | | | |
| <u>Water Service</u> | Fees and charges | | 545 | | |
| | Interest | | 10 | | |
| | Water purchase | (200) | | | |
| | Maintenance costs (direct) | (113) | | | |
| | Indirect costs | | | | |
| | - Administration | (42) | | 42 | |
| | - A-87 overhead | (18) | | | |
| | - Debt service | (30) | | | |
| | - Corporation yard | (30) | | | 18 |
| | BALANCE | | 132 | | |

Table V-10, continued

| <u>Division</u> | <u>Item</u> | <u>Cost</u> (000) | <u>Revenue</u> (000) | <u>Applied Costs</u> | |
|--|----------------------------|----------------------|-------------------------|---|--|
| | | | | <u>Public Works</u> <u>Administration</u> (000) | <u>General</u> <u>Government</u> (000) |
| <u>Sanitation</u> | Fees | | 172 | | |
| | Interest | | 10 | | |
| | Property tax | | 105 | | |
| | Treatment fee | (120) | | | |
| | Debt service | (60) | | | |
| | Maintenance costs (direct) | (63) | | | |
| | Indirect costs | | | | |
| | - Administration | (24) | | 24 | |
| | - A-87 overhead | (9) | | | 9 |
| | - Corporation yard | (11) | | | |
| | BALANCE | | 0 | | |
| <u>Total Community</u> <u>Service Agency</u> <u>Administration</u> <u>& Engineering</u> | Total applied costs | (149) | | 149 | |
| | A-87 | (23) | | | 23 |
| | BALANCE | (172) | | | |

FIVE YEAR PROJECTION OF REVENUE
EAST PALO ALTO INCORPORATION ALTERNATIVE B

| Revenue Sources | Projected Revenue Available (thousands of 1979 dollars) | | | | |
|--|--|----------|----------|----------|----------|
| | 1980-81 | 1981-82 | 1982-83 | 1983-84 | 1984-85 |
| <u>Local Revenue Sources</u> | | | | | |
| Property tax ⁽¹⁾ | \$ 526.0 | \$ 530.0 | \$ 536.0 | \$ 542.0 | \$ 550.0 |
| Sales tax | 172.2 | 192.8 | 216.0 | 298.9 | 334.7 |
| Business license tax ⁽²⁾ | 30.3 | 41.9 | 47.0 | 52.6 | 58.9 |
| Utility franchise tax ⁽²⁾ | 249.7 | 285.7 | 327.1 | 374.7 | 429.9 |
| Licenses and permits | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 |
| Fines and penalties ⁽³⁾ | 41.1 | 41.1 | 41.1 | 41.1 | 41.1 |
| Service charges and fees | 1,087.0 | 1,087.0 | 1,087.0 | 1,087.0 | 1,087.0 |
| Use of money and property | 85.6 | 87.5 | 89.3 | 93.5 | 96.6 |
| Property transfer tax | 15.5 | 15.8 | 16.1 | 16.4 | 17.0 |
| Subtotal Local Revenue Sources | \$2,247.4 | 2,321.8 | 2,399.6 | 2,546.2 | 2,655.2 |
| <u>State Shared Revenue Sources</u> | | | | | |
| Cigarette tax | \$ 43.1 | \$ 47.0 | \$ 48.7 | \$ 50.7 | \$ 52.8 |
| Alcoholic beverage taxes and fees | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 |
| Vehicle and trailer in-lieu fees | 236.2 | 236.2 | 236.2 | 236.2 | 236.2 |
| Gas tax ⁽³⁾ | 158.5 | 130.9 | 98.4 | 67.2 | 41.7 |
| Subtotal State Shared Revenue Sources | \$ 442.2 | \$ 418.5 | \$ 387.7 | \$ 358.5 | \$ 335.1 |
| <u>State and Federal Grants</u> | | | | | |
| General revenue sharing | \$ 233.0 | \$ 247.0 | \$ 261.0 | \$ 288.0 | \$ 308.0 |
| Housing and Community Development Act | 300.0 | 358.0 | -- (4) | -- (4) | -- (4) |
| Subtotal of HCDA Revenue | \$ 300.0 | \$ 358.0 | -- | -- | -- |
| Subtotal of restricted revenue | 199.6 | 172.0 | \$ 139.5 | \$ 108.3 | \$ 82.8 |
| Subtotal of general revenue requiring voter approval | 280.0 | 327.6 | 374.1 | 427.3 | 488.8 |
| Subtotal of other general revenue | 2,443.0 | 2,487.7 | 2,534.7 | 2,657.1 | 2,726.7 |

- Notes: (1) More "full service" city
 (2) Levy of these taxes requires two-thirds voter approval.
 (3) Revenue restricted to street and traffic safety expenses.
 (4) Future HCDA revenue beyond 1981-82 is not protected.

Source: McDonald & Associates

Table V-12

ALTERNATIVE B
SUMMARY OF COSTS AND REVENUES

| Costs and Revenue Categories | Cost-Revenue Projection (Thousands of 1979 Dollars) | | | | |
|--|--|---------|---------|---------|---------|
| | 1980-81 | 1981-82 | 1982-83 | 1983-84 | 1984-85 |
| <u>GENERAL REVENUE</u> | | | | | |
| LOCAL | \$2,206.3 | 2,280.7 | 2,358.5 | 2,505.1 | 2,614.1 |
| STATE SHARED | 283.7 | 287.6 | 289.3 | 291.3 | 293.4 |
| FEDERAL REVENUE SHARING | 233.0 | 247.0 | 261.0 | 288.0 | 308.0 |
| TOTAL | \$2,723.0 | 2,815.3 | 2,908.8 | 3,084.4 | 3,215.5 |
| <u>DEDICATED REVENUE</u> | | | | | |
| STATED SHARED | \$ 158.5 | 130.9 | 98.4 | 67.2 | 41.7 |
| LOCAL | 41.1 | 41.1 | 41.1 | 41.1 | 41.1 |
| TOTAL | \$ 199.6 | 172.0 | 139.5 | 108.3 | 82.8 |
| <u>EXPENSES</u> | | | | | |
| GENERAL | \$2,969.7 | 2,969.7 | 2,969.7 | 2,969.7 | 2,969.7 |
| ELIGIBLE FOR DEDICATED REVENUE ¹ | 290.0 | 290.0 | 290.0 | 290.0 | 290.0 |
| TOTAL | \$3,259.7 | 3,259.7 | 3,259.7 | 3,259.7 | 3,259.7 |
| <u>SURPLUS (DEFICIT)²</u> | | | | | |
| GENERAL | \$ (246.7) | (154.4) | (60.9) | 114.7 | 245.8 |
| DEDICATED | (90.4) | (118.0) | (150.5) | (181.7) | (207.2) |
| TOTAL | \$ (337.1) | (272.4) | (211.4) | (67.0) | 38.6 |

1. This includes both direct costs and applied administrative costs, etc.
2. Assumes that voter approval is received for new special taxes which will equal \$311,600 during the first year of municipal operation. Without this revenue, the initial fiscal feasibility of the Alternative B city is substantially worsened.

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Appendix A

RESPONSE TO COMMENTS RECEIVED CONCERNING THE EAST PALO ALTO FISCAL ANALYSIS

The comments received during the public hearing, and other comments received about the East Palo Alto fiscal analysis raised a number of substantial issues. The issues may be generalized into six questions. These questions and their responses follow.

Question: Why weren't all state and federal grants considered as a direct source of municipal operating revenue?

General revenue sharing, the largest continuing source of federal grants available to municipalities, was included in the revenue estimates. The funding from the Housing and Community Development Act was also evaluated. There are, or have been, other state and federal grants available to cities for financing various operating costs, including the Comprehensive Employment Training Act and various law enforcement grants. CETA programs, where the federal government pays for some municipal employees, have been used by cities throughout the United States. These programs are usually limited to entry level positions. Funding for CETA on a national level has also varied from year to year. Law enforcement grants can offset some police operating costs but are typically directed at special equipment or programs.

The major reason why these or other state and federal grants were not included in the fiscal analysis is that these revenues are not reliable on a continuing basis. They are typically used by municipalities to expand basic services and provide special programs. It is expected that East Palo Alto would also use these grants in a similar manner.

Question: What would be an objective measure of substantial revenue short-fall and other similar labels?

The "labels" or modifiers utilized in the fiscal analysis reflect the analysts judgement and desire to communicate a professional opinion or stress a point developed in the analysis. The above question specifically mentions the term "substantial revenue short-fall." This term is quantified in detail within the analysis. In this case "substantial" means an amount large enough to insure a specific conclusion. In this specific case "substantial" means that the amount of revenue short-fall clearly indicates the initial infeasibility of incorporating East Palo Alto.

Question: What is the meaning of the requirement imposed by Proposition 13 that special taxes levied by local government must be approved "by a two-thirds vote of the qualified electors of such a district."

The state legislative counsel concludes that a "qualified elector" is equivalent to the registered voters participating in a given election.

Generally, provisions requiring a specified vote of the electors for passage of certain propositions have been construed by the courts as requiring such specified vote of the electors voting on the proposition, on the basis that literal interpretation and strict application of the requirement of a vote of all the electors of qualified registered electors who did not actually vote on the issues would render the provisions authorizing a vote on such issue a nullity due to the utter impracticability of carrying out such strict construction (see In re East Bay Etc. Water Bonds of 1925, 196 Cal. 725, 744-749; see also 15 McQuillan, Municipal Corporations, Third Edition, Section 40.13, p. 271.)

Therefore, we think that Section 4 only requires the affirmative vote of two-thirds of those qualified electors voting on the issue at a county, city, or special district election for the imposition of a special tax. We note that, here again, this common-sense construction seems to have received the implied approval of the California Supreme Court (see Amador Valley, supra, at pp. 227-228). (R-A.5)

Prudence suggests that this interpretation of Section 4 of Proposition 13 can be tentatively accepted for financial planning purposes. And utilized as a target for local governments attempting to pass special tax elections.

Question: What would the financial impact on East Palo Alto households be of the incorporation proposal presented in the fiscal analysis?

The ultimate burden of the cost of government falls on households in the form of taxes, fees, assessments, etc. Incorporation would change the existing burden of government costs. The amount of this change would depend upon precisely which revenue sources were changed and in what amounts. The general pattern that can be expected under any incorporation alternative is towards a greater cost to East Palo Alto households. As described in the fiscal analysis, some municipal services in East Palo Alto are presently subsidized by the balance of San Mateo County. Although subsidies could be expected to continue, in the long-term, East Palo Alto would have to become more self-sufficient. This simply means a greater portion of local government costs paid by local residents.

An accurate response to the question of the financial impact on East Palo Alto households requires an analysis of each municipal revenue source included in the fiscal analysis. This analysis is summarized in Table A-1.

The conclusion that may be derived from this analysis is that the fiscal burden of the incorporation alternatives presented in the fiscal analysis is relatively small. In fact, the additional revenue required to make East Palo Alto viable in the 1980-81 fiscal year is also rather small on a household burden basis. When both of these figures are added the total impact on the average East Palo Alto household on an annual basis would be approximately \$100.

This burden analysis assumes that the people of East Palo Alto would pass, by a two-thirds majority, as required by Proposition 13, the necessary special taxes. It also assumes that the County of San Mateo would remain responsible for completing capital improvements currently planned for construction.

Table A-1

ANALYSIS OF THE FISCAL BURDEN OF
INCORPORATING ON EAST PALO ALTO HOUSEHOLDS

| Revenue Source | Amount Available in 1980-81 1979 Dollars | General Fiscal Impact | Annual Cost to Each Household Above Existing Costs |
|-----------------------------|--|---|--|
| Property Tax | \$ 359,000- ¹ 526,000 | None | None |
| Sales Tax | \$ 172,000 | None | None |
| Business License Tax | \$ 30,300 | Small increase in cost of oper- ating businesses in East Palo Alto | None |
| Utility Franchise Tax | \$ 249,700 | Taxes (or franchise fees) charged to businesses for doing business in East Palo Alto will be passed on to the consumer. These fees are presently not charged and would represent a new cost to East Palo Alto households. | \$38 |
| Licenses and Permits | \$ 40,000 | None | None |
| Service Charges and Fees | \$ 225,000- ¹ 1,087,000 | These service charges and fees are mostly currently collected for existing services. Costs will in- crease with inflation but no major increases were included in the fis- cal analysis. If benefit assess- ments were levied for drainage maintenance and street lighting (as under the "B" alternative), an impact would result. | \$0 - \$19 |

Table A-1 continued

ANALYSIS OF THE FISCAL BURDEN OF INCORPORATING ON EAST PALO ALTO HOUSEHOLDS

| Revenue Source | Amount Available in 1980-81 1979 Dollars | General Fiscal Impact | Annual Cost to Each Household Above Existing Costs |
|---|--|--|--|
| Fines and Penalties | \$ 41,100 | The revenue estimate was based on existing revenue produced. The city <u>could</u> increase these fines and penalties but such an increase was not included in the analysis. | None |
| Use of Money and Property | \$ 50,000 | None | None |
| Property Transfer Tax | \$ 31,600 | The impact of this tax would fall on property buyers and sellers. | No direct, general impact |
| State-shared Revenue Sources | \$ 442,200 | None | None |
| Federal Revenue Sharing | \$ 233,000 | None | None |
| Total of Above Revenue Sources | | | \$38 - \$57 |
| Amount required to make up the first year's revenue short-fall (1980-81) | \$ 232,600 ^{1/} 279,900 | The citizens of East Palo could vote for an additional special tax to cover the projected revenue short-fall. | \$36 - \$43 |

^{1/} This variation represents the difference between revenues projected for incorporation Alternatives A and B.

Question: What will be the impact of the recently adopted Gann initiative on the feasibility of incorporating East Palo Alto?

Proposition 4, the "Spirit of 13" initiative passed by California voters in November 1979, is intended to limit government spending. The general provisions of Proposition 4 include:

1. Appropriations of state and local government from tax sources are limited to a formula based on changes in population and the cost of living (Consumer Price Index). Growth of per capita personal income is used to adjust the limit if this figure is less than CPI.
2. The limitation may be adjusted temporarily by a majority vote of the electors.
3. Tax revenues in excess of the limit must be returned to the taxpayers within two years.
4. The state is required to reimburse local governments for new programs or higher levels of service which it mandates.
5. Fees and charges in excess of the cost of providing the service are within and controlled by the limit.
6. Provisions are made for emergencies, for government debt service, for new entities of government, and for transfers of functions from one entity to another or from a tax source to a fee. (R-A.1)

It is generally felt that the spending restrictions imposed by Proposition 4 are less restrictive than the revenue limitations imposed by Proposition 13. Most local governments will find it difficult to maintain existing revenue levels (in dollars adjusted for inflation). Proposition 4 permits growth in spending that will generally be above increases in revenue.

The situation for a community wishing to incorporate is somewhat different than an existing government agency. Similar to Proposition 13, where new local governments must negotiate for the share of the local property tax base,

Proposition 4 implies that the right to spend must also be derived from existing government agencies. In the present case, East Palo Alto, depending upon the range of municipal services it provides, must negotiate for both local property tax revenue and the authority to spend property tax and other revenue for municipal purposes. The County of San Mateo and the special districts absorbed by East Palo Alto would give up both the revenue and the right to the expenditures given to the new city.

Although the negotiations that will result in the appropriate sharing of revenue and expenditures may be difficult, Proposition 4 should not create a severe limitation for East Palo Alto, if the right to expenditures granted is equal to the expenditure estimates prepared for the fiscal analysis. (see Table I-2) As shown by Table I-2, the expenditures projected for the municipal alternatives are relatively close to existing spending levels.

The ability of a new city to accrue a revenue surplus during its first year after incorporation since it continues to receive county services is discussed below. This ability would appear not to be affected by the Gann Initiative since according to Section 5

a city is authorized to establish such contingency and other funds as "...it shall deem reasonable and proper."

proceeds of taxes that are contributed to a contingency fund are subject to the expenditure limit but, since the new city is not making expenditures for services provided by the County, there will be a significant gap between actual city expenditures and the "expenditure cap." (R-A.1)

expenditures from the contingency reserve are not subject to the expenditure limit.

This reserve provides a financial "cushion" for revenue shortfalls, necessary capital improvements, etc.

Question: The fiscal analysis states that the county is required to continue providing services for the remainder of the fiscal year during which incorporation is effectuated, while certain revenues are accumulated by the city. Which revenues accumulate and what, based upon the revenue projections in the fiscal analysis, would be the amount available if incorporation was effectuated during 1980?

This requirement is traditional and was carried forward in the Municipal Reorganization Act of 1977, (MORGA). The government code reference is Section 35448 of Division 2 of Title A of the government code, relating to cities:

Section 35448. "Whenever a city has been incorporated from territory formerly unincorporated, the board of supervisors shall continue to furnish, without additional charge, to the area incorporated all services furnished to the area prior to the incorporation. Such services shall be furnished for the remainder of the fiscal year during which the incorporation became effective or until the legislative body of the city requires discontinuance of the services, whichever first occurs." (R-A.3)

If incorporation were effectuated in July, the county would be required to provide services until the end of June, the following year. During this period revenues, including those from both local and state shared sources, that would otherwise go to the county to support municipal services, would be accumulated by East Palo Alto. Although the city would incur some costs for running the initial city government, a revenue surplus should accumulate in proportion to the services continued, and not initially provided by the city. These services include police protection, the municipal council, street construction and maintenance, drainage maintenance, street lighting, planning and building inspection, animal control, and civil defense.

Table A-2 shows the revenue sources that currently support municipal services provided by the county, which would be allocated to East Palo Alto during the period between the date incorporation is effectuated and the end of the fiscal year.

Table A-2

REVENUE ACCRUING TO EAST PALO ALTO
DURING THE FIRST YEAR OF MUNICIPAL OPERATION

| Revenue Source | Amount Received by City (Previously Used To Support Services To East Palo Alto Provided by County) ¹ |
|-----------------------------------|---|
| <u>LOCAL</u> | |
| Property Tax | \$ 359,000 |
| Sales Tax | 172,200 |
| Fines and Penalties | 41,100 |
| Property Transfer Tax | 15,500 |
| <u>STATE SHARED</u> | |
| Cigarette Tax | 43,100 |
| Alcoholic Beverage Taxes and Fees | 4,400 |
| Vehicle and Trailer In-Lieu Fees | 236,200 |
| Gas Taxes | 158,500 |
| <u>FEDERAL</u> | |
| Federal Revenue Sharing | 233,000 |
| TOTAL | \$1,263,000 |

¹ Based upon the 1980-81 revenue estimates assuming incorporation is effected on July 1, 1980.

Appendix B

BOUNDARY ALTERNATIVES -- EAST PALO ALTO FISCAL ANALYSIS

The boundaries of County Service Area #5 were used for the initial fiscal analysis. Three additional boundary alternatives were considered:

1. Detachment of the land area south of Willow Road from the City of Menlo Park and annexing it to a City of East Palo Alto.
2. Incorporation of East Palo Alto without the area west of the Bayshore Freeway.
3. Annexation of the East Palo Alto area to the City of Menlo Park.

While other boundary options exist, these were chosen for three reasons. First, they are intended to represent a range of possible boundaries -- from a city smaller than the city evaluated to a larger city, and finally to an annexation that would join East Palo Alto to Menlo Park.

Second, these alternatives have been suggested over time by people interested in incorporation and are each associated with unique political issues. Third, each of the alternatives has a unique impact on the feasibility of incorporating East Palo Alto.

The analysis of the boundary alternatives is presented as a contrast to the analysis of the city governments presented in Chapter V of this report. The point of this analysis is to determine how the various alternative boundaries would affect the conclusions of the fiscal analysis. As such, this analysis does not represent an in-depth analysis of all the fiscal implications of each boundary alternative, particularly on other jurisdictions which would be involved, such as the City of Menlo Park. An in-depth analysis could be included in the environmental impact report that will be required for the actual incorporation/annexation project.

The basis for the analysis of boundary alternatives is provided in the body of the fiscal analysis. Selected other data was collected by means of documentary research and interviews.

The municipal services provided in East Palo Alto with alternative boundaries could vary between the legally required services only to a full service city. Regardless of the boundaries chosen, incorporation would necessarily include decisions similar to those explored in Chapter V concerning which municipal services would remain with existing special districts and which would be assumed by the new city. This is true whether a new City of East Palo Alto is formed or East Palo Alto becomes a part of Menlo Park. The minimum services that could be provided by a city government would be similar to the alternative A city -- providing only the legally required services (see Table V-2, pages 92-95) during the incorporation/annexation process the new city could also choose to dissolve major special districts presently providing municipal services, similar to the Alternative B city (see Table V-7, pages 104-107).

Boundary Alternative #1

DETACHMENT OF THE LAND SOUTH OF WILLOW ROAD AND SUBSEQUENT ANNEXATION TO EAST PALO ALTO

This alternative involves detachment of several hundred acres currently within Menlo Park and annexation of this land to East Palo Alto as it incorporates. The land involved is south of Willow Road and includes the old Hiller-Fairchild industrial site (presently being redeveloped), other smaller industrial developments, vacant industrial land (some of which is currently being proposed for a major residential development), salt ponds and bay front marshland, which includes a marina site.

The addition of this land to East Palo Alto would add to the new city's undeveloped land supply and permit residential and industrial growth that may enhance the feasibility of incorporation. Two projects currently being proposed on this land, the Menlo Industrial Park and the Sunset Meadows Residential Subdivision, were both shown in respective project EIR's to be fiscally sound, providing revenues in excess of costs.

The industrial development, because of its low demand on public services, would provide immediate revenue net of costs as shown in Table B-1. The positive revenue condition could be expected to continue. The proposed residential subdivision presents a slightly different problem. While service costs to residential development are higher, the fiscal analysis also indicates that the long-term revenue would also be higher. The subdivision would produce deficits for its first four years of existence and then begin to "pay its own way" and eventually produce net revenues in excess of those from alternative land uses such as industrial. A summary of the fiscal analysis of the Sunset Meadows Subdivision is provided in Table B-2. A somewhat lower density, higher home value subdivision could be expected to have similar fiscal characteristics.

The marina site is presently undeveloped. The proposed marina would be a commercial facility and as such could be expected to produce additional sales and property tax revenues. Although no specific project has been proposed, the general scale of the site and the development that could occur indicates combined sales and property tax revenue

Table B-1

FISCAL IMPACT OF THE MENLO INDUSTRIAL CENTER
ON THE CITY OF MENLO PARK

| Key Revenue Sources | Projected Annual Amount in 1978 Dollars | |
|---------------------|--|--|
| Property Tax | \$20,870 | |
| Franchise Taxes | 2,389 | |
| Business Licenses | 18,425 | |
| Sales Taxes | 2,000 | |
| TOTAL | \$43,684 | |

| Annual Costs Attributed to the Industrial Development | Average Cost Basis | Marginal Cost Basis |
|---|-----------------------|------------------------|
| Police | \$16,766 | \$ 0 |
| Public Works | 8,915 | 8,915 |
| General Government | 2,627 | 0 |
| TOTAL | \$28,308 | \$8,915 |

| Net Annual Revenue (Cost) | Average Cost Basis | Marginal Cost Basis |
|------------------------------|-----------------------|------------------------|
| | \$15,376 | \$34,769 |

Source: Urban Economics Corporation (R-A.6)

Table B-2

SUMMARY OF THE FISCAL ANALYSIS FOR THE
SUNSET MEADOWS RESIDENTIAL DEVELOPMENTAnnual Summary - Additional Revenues and Expenditures

| | <u>1980-81</u> | <u>1981-82</u> | <u>1982-83</u> | <u>1983-84</u> | <u>1984-85</u> | <u>1985-86</u> |
|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Revenues | \$12,016 | \$36,270 | \$64,015 | \$94,351 | \$113,375 | \$119,922 |
| Expenditures | <u>49,078</u> | <u>39,203</u> | <u>79,066</u> | <u>60,328</u> | <u>81,343</u> | <u>69,089</u> |
| Surplus (Deficit) | (\$37,062) | (\$ 2,933) | (\$15,051) | \$34,023 | \$ 32,032 | \$ 50,833 |

Cumulative Summary - Additional Revenues and Expenditures

| | <u>1981-81</u> | <u>1981-82</u> | <u>1982-83</u> | <u>1983-84</u> | <u>1984-85</u> | <u>1985-86</u> |
|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Prior Year | \$ -- | (\$37,062) | (\$39,995) | (\$55,046) | (\$21,023) | \$11,009 |
| Revenues | 12,016 | 36,270 | 64,015 | 94,351 | 113,375 | 119,922 |
| Expenditures | <u>49,078</u> | <u>39,203</u> | <u>79,066</u> | <u>60,328</u> | <u>81,343</u> | <u>69,089</u> |
| Surplus (Deficit) | (\$37,062) | (\$39,995) | (\$55,046) | (\$21,023) | \$11,009 | \$61,842 |

Source: Ralph Anderson & Associates (R-A.4)

between \$25,000 and \$50,000. Service costs for commercial facilities are typically below revenue so the marina can be expected to produce some net revenue.

Actual revenues and costs for these lands, if they were annexed to an incorporating City of East Palo Alto, would undoubtedly be slightly different than projected for the City of Menlo Park. However, the data is adequate to support several conclusions about the fiscal impact on East Palo Alto.

During the first several years of municipal operation the annexation of all the land south of Willow Road would add additional costs to East Palo Alto (if currently proposed projects were approved). This is a problem, since it is in first years of municipal operation (1981-83) that the base City of East Palo Alto is shown to have a substantial revenue short-fall. Addition of the south of Willow properties could worsen this situation. Even if the deficits associated with the first several years of the subdivision could be avoided, the net revenues from these lands would not offset the projected deficits in East Palo Alto. In the long-term, if the initial deficits associated with the subdivision could be somehow mitigated, and the marina site was developed as a successful commercial facility, the lands south of Willow Road could be expected to be a fiscal advantage for East Palo Alto. This fact also applies to Menlo Park, which would tend to encourage Menlo Park not to de-annex these lands. De-annexation would require the approval of both the City of Menlo Park and the affected property owners.

Boundary Alternative #2

INCORPORATION OF EAST PALO ALTO WITHOUT THE AREA OF COUNTY SERVICE AREA #5 WEST OF THE BAYSHORE FREEWAY

This alternative would exclude the area currently considered a part of East Palo Alto from an incorporated East Palo Alto. The land is adjacent to Menlo Park. A local property owners' group has been actively pursuing annexation of the area to Menlo Park.

The area west of the Bayshore Freeway occupies less than ten percent of the land area of East Palo Alto but is developed at a higher density. Seventeen percent of East Palo Alto's population resides in the area. It is the location of the major commercial area in East Palo Alto. Because of the higher residential density and generally more costly homes, the area produces a larger proportional amount of property tax revenue. The area is the most fiscally sound part of East Palo Alto.

It is estimated that thirty percent of the assessed value in East Palo Alto is to the west of the Bayshore area. Also, the commercial activity west of the Bayshore Freeway accounts for a large portion of East Palo Alto's sales tax revenue and other state-shared revenue. Table B-3 shows the breakdown of current sales tax and state-shared revenue between East Palo Alto and the west of the Bayshore area.

Other revenues, such as service charges, should be relatively equivalent on a per capita basis between the two areas. This means that for these revenues the amounts attributed to the west of the Bayshore area should be proportional to the population.

The net affect of not including the west of the Bayshore area with East Palo Alto is estimated to be a twenty-two percent reduction of potential revenue. The breakdown of this analysis is shown by Table B-4.

On the expenditure side the elimination of the west of the Bayshore area would reduce municipal expenditures to some extent although many of the costs associated with the larger city would remain.

Table B-3

COMPARISON OF SALES TAX AND STATE-SHARED REVENUE
BETWEEN THE PORTIONS OF EAST PALO ALTO
EAST AND WEST OF THE BAYSHORE FREEWAY

| Revenue Source | Projected Revenue Available in 1979 | | | |
|-------------------------------------|-------------------------------------|------------------|--------------------------|------------------|
| | East of Bayshore Freeway | | West of Bayshore Freeway | |
| | Amount | Percent of total | Amount | Percent of total |
| Sales Tax | \$91,198 | 60% | \$52,755 | 40% |
| Alcoholic Beverage Taxes | 1,901 | 52% | 1,753 | 48% |
| Cigarette Taxes | 35,162 | 78% | 9,569 | 22% |
| Vehicle and Trailer in Lieu Fees | 196,548 | 83% | 39,614 | 17% |
| Gasoline Taxes | 143,077 | 83% | 28,837 | 17% |

Source: California State Board of Equalization (R-16)

The conclusion of the analysis of the impact of not including the area west of the Bayshore Freeway is that it would make incorporation somewhat less feasible than anticipated by the fiscal analysis, since the loss of revenue would not be completely recovered by reduced municipal costs.

Table B-4

COMPARISON OF REVENUE FROM THE EAST AND WEST
OF BAYSHORE FREEWAY PORTIONS OF EAST PALO ALTO -- 1980-81

| (Thousands of 1979 Dollars) | | | |
|----------------------------------|----------|----------|----------|
| | East | West | Total |
| <u>Local Revenue</u> | | | |
| Property Tax | \$ 251.3 | \$ 107.2 | \$ 359.0 |
| Sales Tax | 103.3 | 69.8 | 172.2 |
| Business License Tax | 18.2 | 12.1 | 30.3 |
| Utility Franchise Tax | 209.7 | 40.0 | 249.7 |
| Licenses and Permits | 33.6 | 6.4 | 40.0 |
| Fines and Penalties | 34.5 | 6.6 | 41.1 |
| Services Charges and Fees | 189.0 | 36.0 | 225.0 |
| Use of Money and Property | 37.5 | 12.5 | 50.0 |
| Property Transfer Tax | 26.6 | 5.0 | 31.6 |
| Subtotal of Local Revenue | \$ 903.7 | \$ 294.7 | \$1198.9 |
| Percentage | 75.4 | 24.6 | 100.0 |
| <u>State Shared Revenue</u> | | | |
| Cigarette Tax | 33.6 | 9.5 | 43.1 |
| Alcoholic Beverage Fees | 2.3 | 2.1 | 4.4 |
| Vehicle and Trailer Fees | 196.0 | 40.2 | 236.2 |
| Gas Tax | 131.6 | 26.9 | 158.5 |
| Subtotal of State-Shared Revenue | \$ 363.5 | \$ 78.7 | \$ 442.2 |
| Percentage | 82.2 | 17.8 | 100.0 |
| Federal Revenue Sharing | \$ 193.4 | \$ 39.6 | \$ 233.0 |
| Percentage | 83.0 | 17.0 | 100.0 |
| Total General Revenue | \$1294.5 | \$ 413.0 | \$1674.5 |
| Total Restricted Revenue | 166.1 | 33.5 | 199.6 |
| Percentage of Total Revenue | 78.0 | 22.0 | 100.0 |

Source: McDonald & Associates

Boundary Alternative #3

ANNEXATION OF EAST PALO ALTO TO THE CITY OF MENLO PARK

The third boundary alternative is the annexation of East Palo Alto to the City of Menlo Park, which would simply extend its present services to East Palo Alto. This would be accomplished by dissolving most of the special districts providing municipal services to East Palo Alto and expanding the existing Menlo Park city departments. Notable exceptions would be the Menlo Park Fire District, the East Palo Alto Sanitation District and the County Library, which would continue to provide service as before annexation.

Since incorporation of East Palo Alto was found to be infeasible at the present time, the fiscal feasibility of Menlo Park annexing East Palo Alto depends entirely upon economies of size that the new, larger City of Menlo Park might achieve. The situation is unlike a typical annexation, where a city attempts to capture new revenue by annexing undeveloped land. Because East Palo Alto is nearly fully developed and is presently fiscally dependent upon San Mateo County, it may not be attractive to Menlo Park. Also, revenue limitations imposed by Proposition 13 make new revenues unlikely, and the recently passed Proposition 4 restricts increases in service expenditures beyond existing levels not reflecting population growth or general inflation. However, annexation to Menlo Park is an interesting alternative because in spite of its drawbacks, it may be the most economical way of providing municipal services to East Palo Alto. Menlo Park, which surrounds East Palo Alto on three sides, presently has a public service infrastructure that might be expanded more economically than creating an entirely new city government. The new, larger city would also be close to being eligible for HCDA block grant funding independent of San Mateo County, in addition to other federal categorical grants, because its population would nearly exceed 50,000.

Municipal services in Menlo Park are currently financed by a relatively healthy and adequate tax base, supported by high property values and a high level of retail sales. On a per capita basis, there are dramatic differences in the revenue available to Menlo Park as compared to East Palo Alto.

For the two components of municipal revenue mentioned, property taxes and sales taxes, Menlo Park receives per capita \$36 and \$65 respectively. In East Palo Alto per capita property taxes available to the new city would equal \$19, while sales taxes per capita would equal only \$8. Table B-5 compares the per capita revenues presently available to Menlo Park and East Palo Alto. By annexing East Palo Alto, Menlo Park's per capita revenue would be substantially diluted.

On the expenditure side, current per capita expenditures in East Palo Alto differ substantially from Menlo Park. A comparison of expenditures for key municipal services is shown in Table B-6. The substantial differences lie in expenditures for general government, where Menlo Park spends, on a per capita basis, 138 percent as much as East Palo Alto; and police, where expenditures in East Palo Alto per capita are 75 percent higher than Menlo Park. The low cost of general government in East Palo Alto reflects costs not accounted for in the initial analysis (non-separable costs for services provided by San Mateo County), but even if these were included, it is unlikely that these costs would be as high in East Palo Alto. The difference in police costs reflects the fact that the demand for police services in East Palo Alto is generally higher than in Menlo Park. East Palo Alto has a substantially higher crime rate in both Part I and Part II offenses.

Annexation of East Palo Alto by Menlo Park would be fiscally feasible, but the new city would undoubtedly suffer an initial reduction in per capita revenue. This might lead to reduced service levels if revenue from East Palo Alto does not cover the marginal costs of extending services. As the revenue base in East Palo Alto improves (as it was shown to do in the fiscal analysis), this potential impact would diminish.

The estimated marginal costs of extending key municipal services to East Palo Alto are shown in Table B-7. Discussion with the City of Menlo Park officials indicated that police services could be provided to East Palo Alto by Menlo Park without increasing per capita costs. Economies of size are potentially available for other municipal services, including general government and community development. It is estimated that the per capita costs of extending these services could be as much as fifty percent below the current per capita average costs in Menlo Park. If this is true, a significant expenditure

Table B-5

EAST PALO ALTO BOUNDARY ALTERNATIVE #3 --
REVENUE ANALYSIS

| Revenue Source | City of Menlo Park Revenue 1978-79 | | Estimated East Palo Alto Revenue 1978-79 | |
|---|--|------------|--|------------|
| | Total | Per Capita | Total | Per Capita |
| <u>LOCAL REVENUE SOURCES</u> | | | | |
| Property Tax | \$1,000,000 | \$36 | \$350,000 | \$19 |
| Sales Tax | 1,790,000 | 65 | 151,000 | 8 |
| Business License Tax | 206,000 | 8 | 23,500 | 1 |
| Utility Franchise Tax | 206,000 | 8 | 9,800 | 1 |
| Licenses and Permits | 146,000 | 5 | 40,000 | 2 |
| Fines and Penalties | 160,000 | 6 | 41,000 | 2 |
| Service Charges and Fees | 170,000 | 6 | 50,000 | 3 |
| Use of Money and Property | 154,000 | 6 | 50,000 | 3 |
| Property Transfer Tax | 60,000 | 2 | 31,000 | 2 |
| <u>STATE-SHARED REVENUE SOURCES</u> | | | | |
| Cigarette Tax | 115,000 | 4 | 45,000 | 3 |
| Alcoholic Beverage Taxes and Fees | 16,000 | 1 | 3,700 | - |
| Vehicle and Trailer in Lieu Fees | 381,000 | 14 | 191,000 | 11 |
| Gas Tax | 296,000 | 11 | 160,000 | 9 |
| <u>STATE AND FEDERAL GRANTS</u> | | | | |
| General Revenue Sharing | 126,000 | 5 | 233,000 | 13 |

Table B-6

EAST PALO ALTO BOUNDARY ALTERNATIVE #3 --
EXPENDITURES

| General Expenditures for Key Municipal Services | City of Menlo Park 1978-79 | | East Palo Alto "Base Case" 1978-79 | |
|--|-------------------------------|------------|--|------------|
| | Total | Per Capita | Total | Per Capita |
| General Government | \$ 848,909 | \$31 | \$ 231,200 | \$13 |
| Police | 1,278,024 | 47 | 1,472,076 | 82 |
| Community Development | 253,417 | 9 | 36,150 | 2 |
| Public Works (Not Including Sanitation) | 1,220,840 | 45 | 814,464 | 45 |
| Parks and Recreation | 313,461 | 11 | 169,678 | 9 |
| Library | 283,170 | 10 | 158,276 | 9 |

TABLE B-7

MARGINAL COSTS FOR EXTENDING
MENLO PARK MUNICIPAL SERVICES TO
EAST PALO ALTO

| Municipal Service | Estimated Cost Under East Palo Alto Incorporation Alternatives A & B | Estimated Cost of Menlo Park Extending Services to East Palo Alto |
|-----------------------|---|--|
| General Government | \$ 330,000 | \$ 280,000 ¹ |
| Police | 1,222,300 | 850,000 ² |
| Community Development | 162,000 | 80,000 ³ |
| TOTAL | <u>\$1,714,300</u> | <u>\$1,210,000</u> |

1. Assumes that the marginal cost of extending general government services to East Palo Alto would be fifty percent of the existing average per capita cost.
2. Assumes that the marginal cost of extending police services to East Palo Alto would equal the current average per capita cost of police service in Menlo Park, applied to East Palo Alto's estimated population (18,000).
3. Assumes that the marginal cost of extending planning and building inspection services to East Palo Alto would equal fifty percent of the current average per capita cost of community development service in Menlo Park, applied to East Palo Alto's estimated population.

saving could be realized. Table B-7 indicates a potential \$500,000 saving under the Menlo Park annexation alternative as compared with the East Palo Alto incorporation alternatives.

Although the new City of Menlo Park's average per capita revenue would decline, East Palo Alto should produce adequate revenue to cover additional costs to Menlo Park, and hence not be a drain on the revenue base of the existing city.

The capital improvements required in East Palo Alto to streets, drainage projects and the water system, could cause a problem for Menlo Park, unless county responsibility was continued. The fiscal analysis estimates over \$22,000,000 worth of required improvements. It is assumed that similar to the incorporation alternatives, the County of San Mateo would complete most of these planned projects.

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REFERENCES TO APPENDIXES A AND B

- A.1. "Analysis of Proposition 4, the Gann Initiative." Cal Tax. August 1979.
- A.2. California State Constitution. Article XIII B. June 1979.
- A.3. California State Legislature. Municipal Organization Act of 1977. (AB 1533) October 1977.
- A.4. Environmental Science Associates, Inc. Draft Environmental Impact Report: Sunset Meadows Residential Development. (Prepared for City of Menlo Park, California.) August 1979.
- A.5. Legislative Counsel of California. Article III A: Special Taxes, Assessments, Fees - \$16240. Sacramento: November 1978.
- A.6. Nolte, George S. & Associates. Draft Environmental Impact Report: Menlo Industrial Center, Menlo Park, California. Menlo Park: November 1978.

